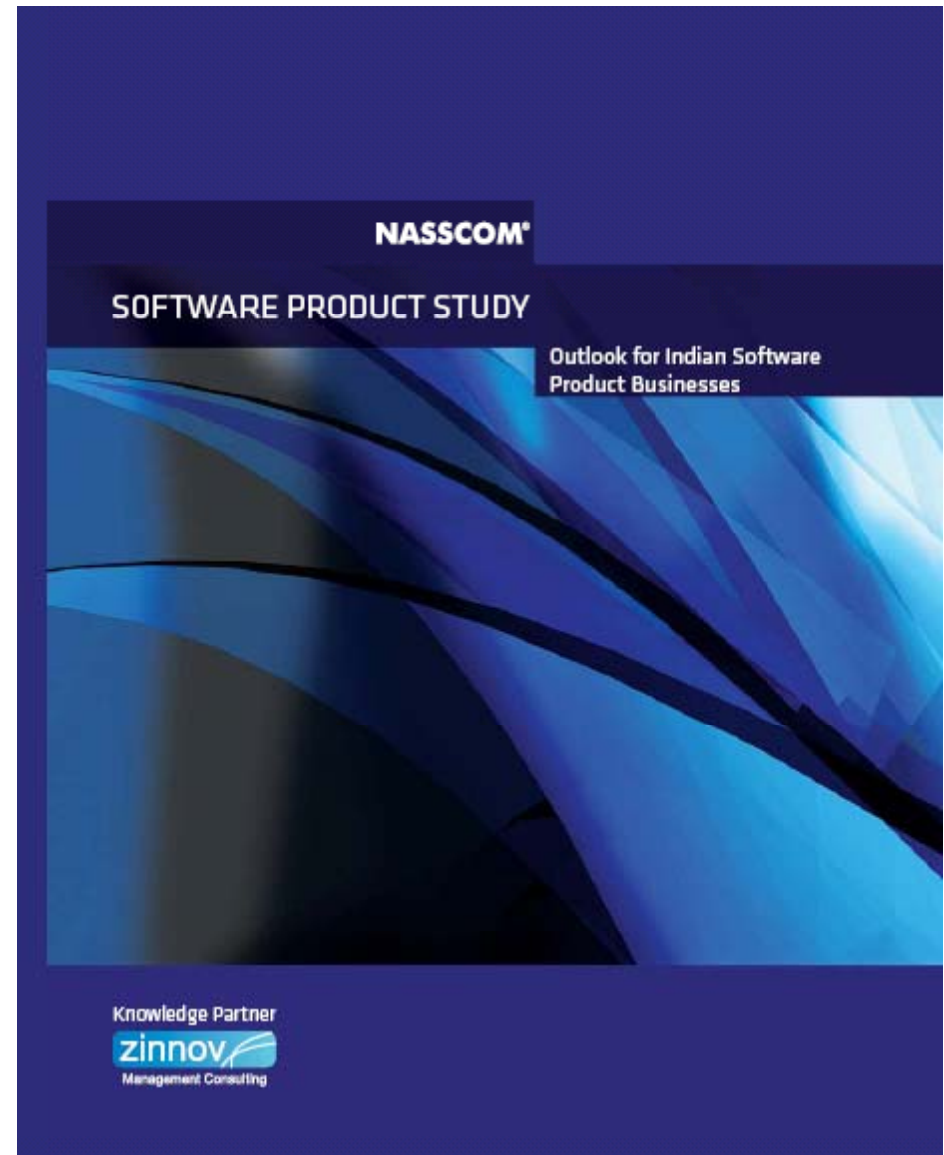


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Outlook for Indian Software Product Businesses

Key Findings

2008



zinnov
Research and Consulting

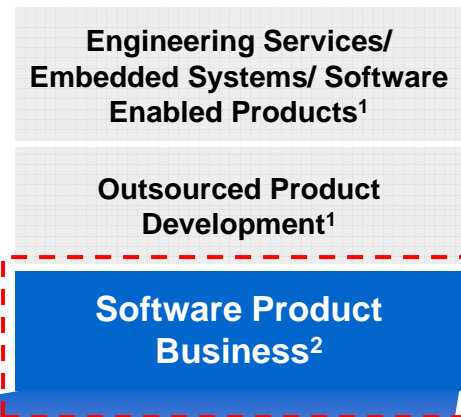
This study is a deep-dive analysis of the potential opportunities to build successful Indian software product business

Indian Technology IP Landscape

	MNC Companies	Indian Companies
IT Services	✓	✓
Software Products & Engineering Services	✓	✓
Business Process Outsourcing (BPO)	✓	✓

✓ Indicates IP Creation from India

Indian Software Products and Engineering Services IP Landscape



An Indian Software Product Business is

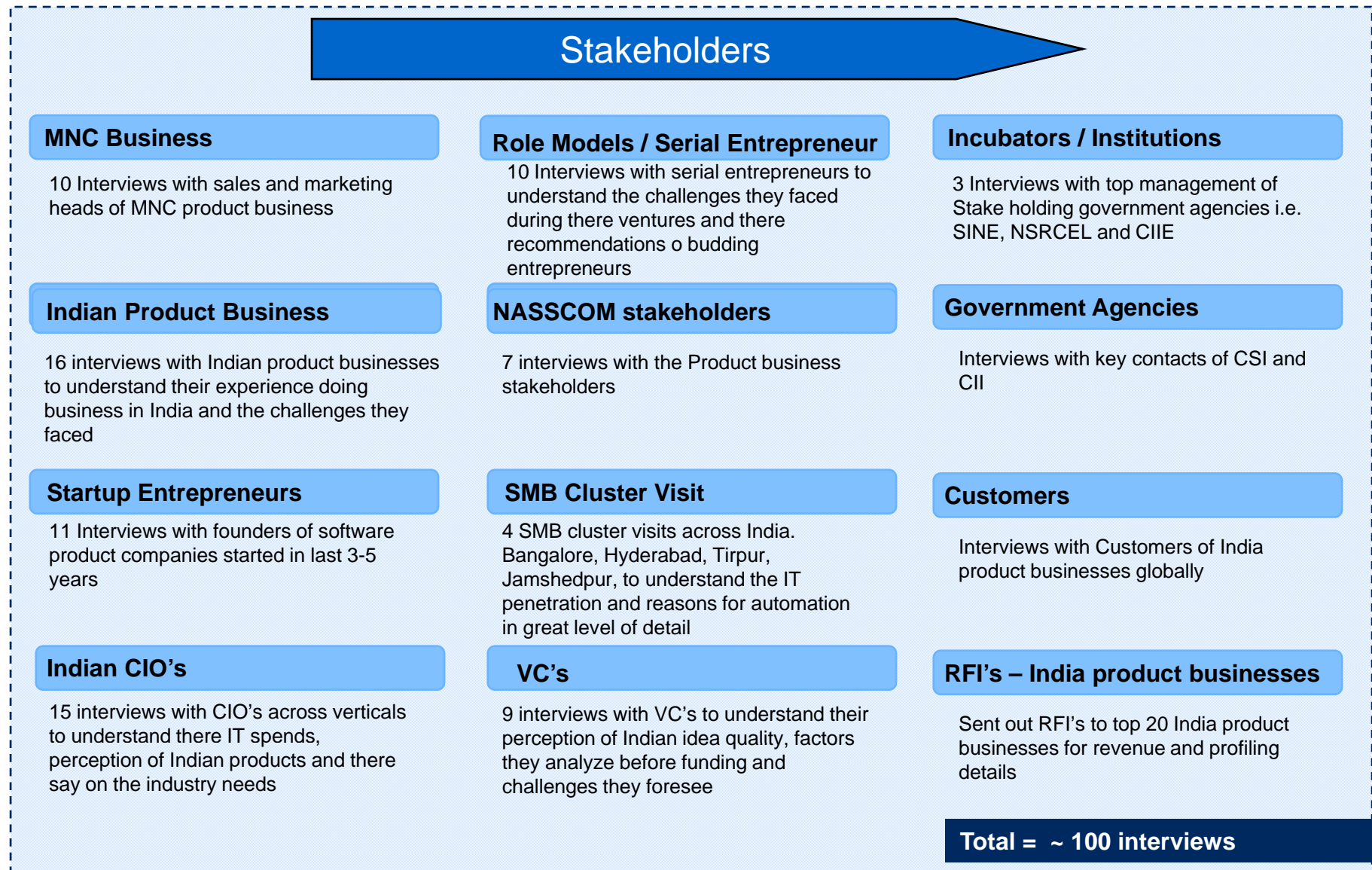
- A company headquartered in India
- That has developed and/ or owns the software IP (includes software IP owned through acquisitions)
- Undertakes the packaging and selling of the software itself or through channel partners

Objective of the Study

- To review of the market landscape
- Highlight the key opportunity areas in the domestic and global markets
- Suggest targeted actions that key stakeholders should undertake to enable the next phase of growth for Indian software product businesses

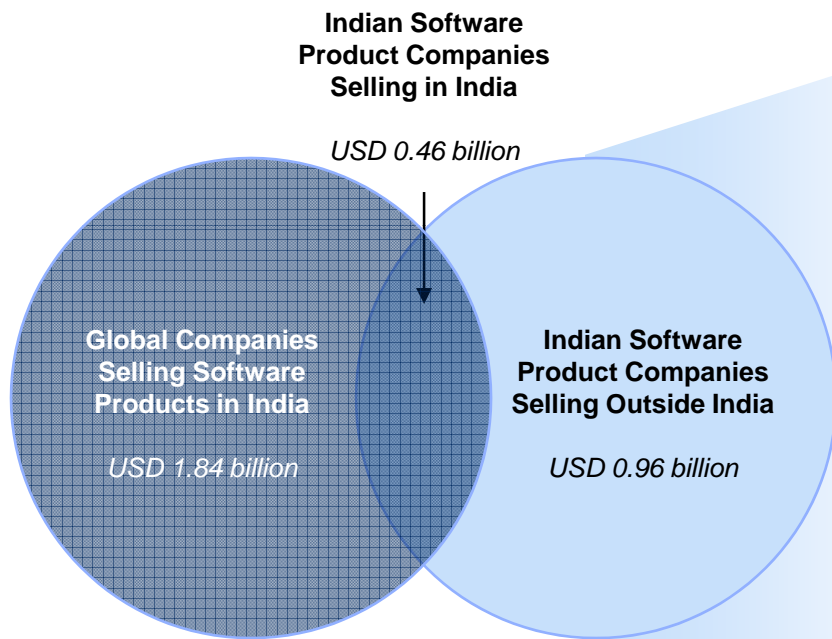
Note: ¹Discussed in Appendix; ²Includes exports and domestic sales
Source: Stakeholder Interviews; Zinnov Analysis

Zinnov reached out to various software product business stakeholders to gather specific insights

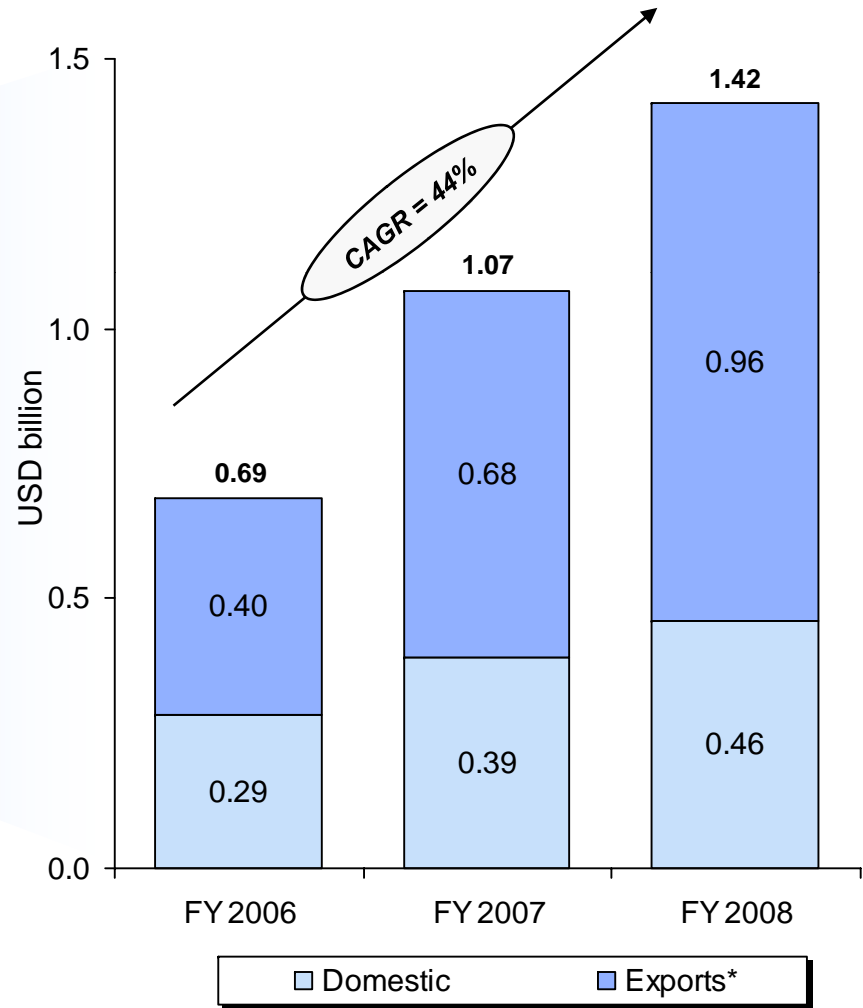


The Indian software product industry has witnessed an accelerated growth of 44 per cent over the past three years

Indian Software Product Market Landscape, FY2008



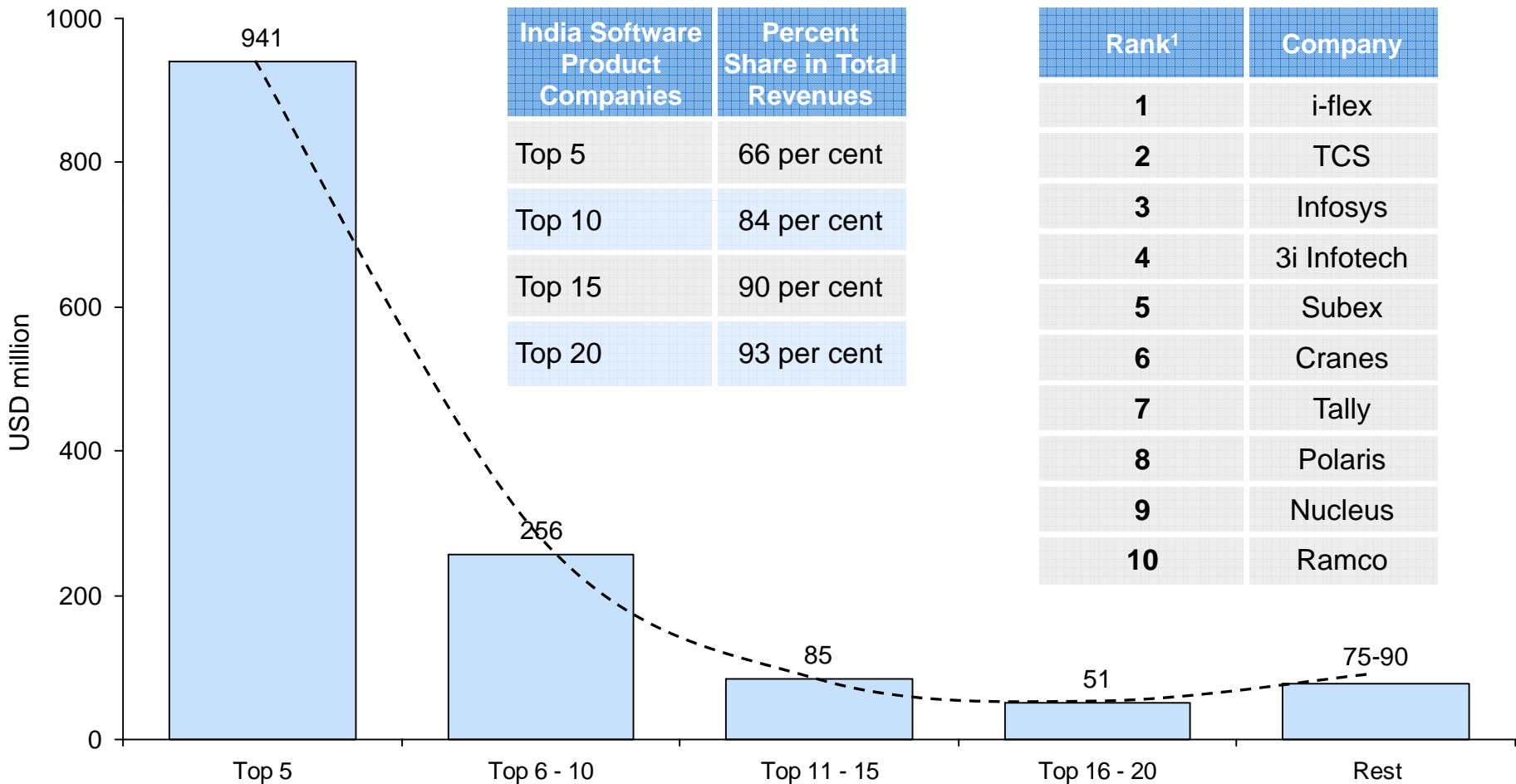
Indian Software Product Businesses Revenue



Note: * Includes overseas acquisition led revenue growth
Source: Zinnov Analysis

While the top 5 players dominate, expansion in the tier-II firms and startups has helped broad-base the industry structure

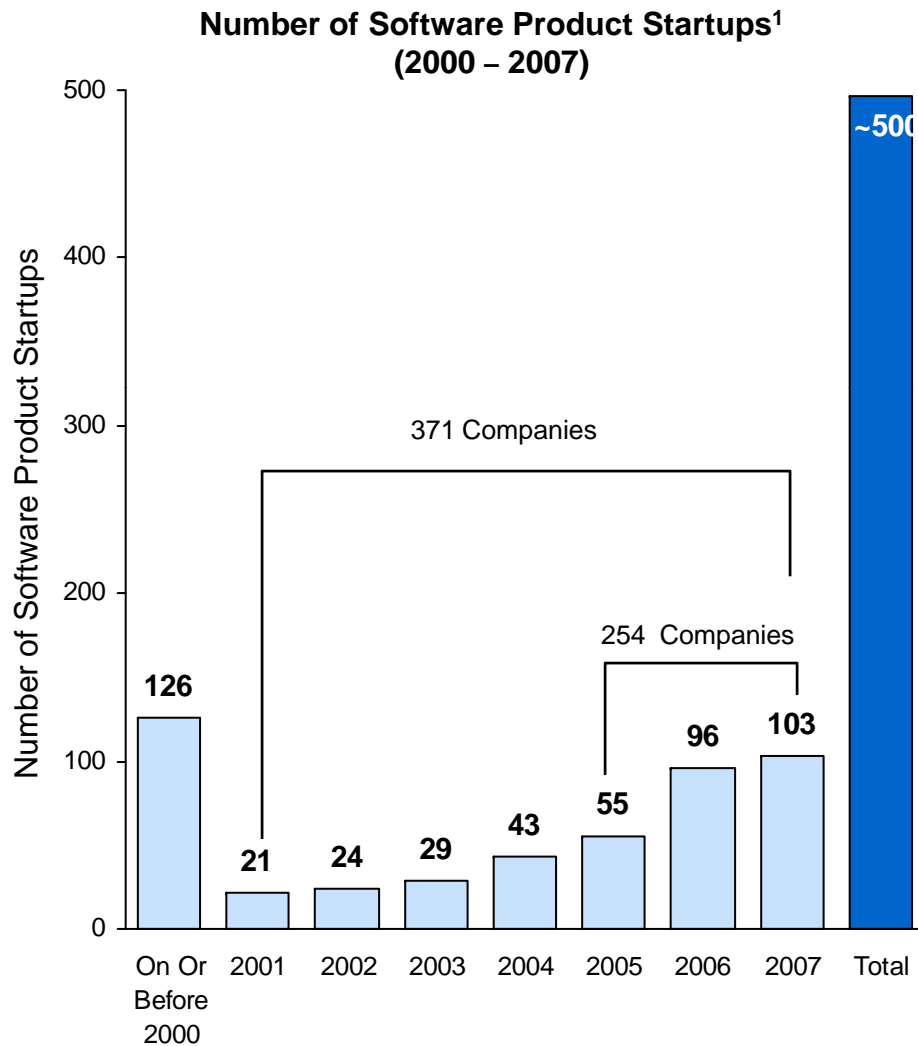
Revenues of Top Indian Software Product Companies, FY2008



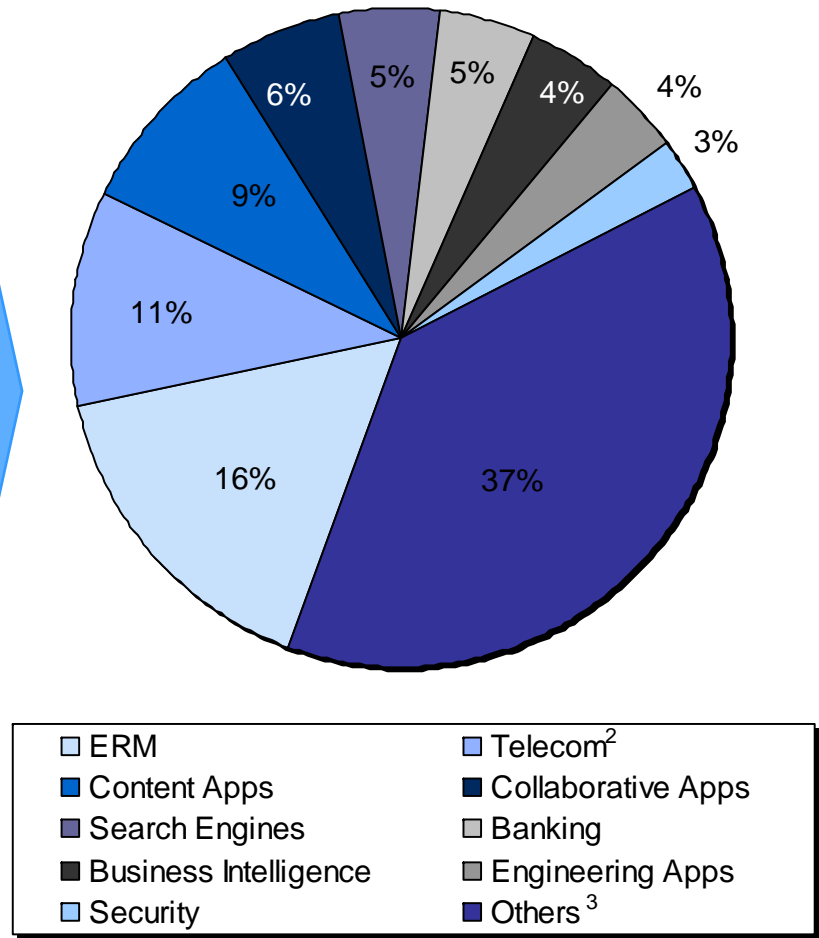
Note:¹Ranking is based on responses from RFIs; Only software product revenues have been considered for the analysis

Source: Company Annual Reports; Zinnov Analysis

Growth in software product startup activity over the last three years has also helped strengthen the industry product portfolio



Categorical Distribution of Indian Software Product Businesses (2007)

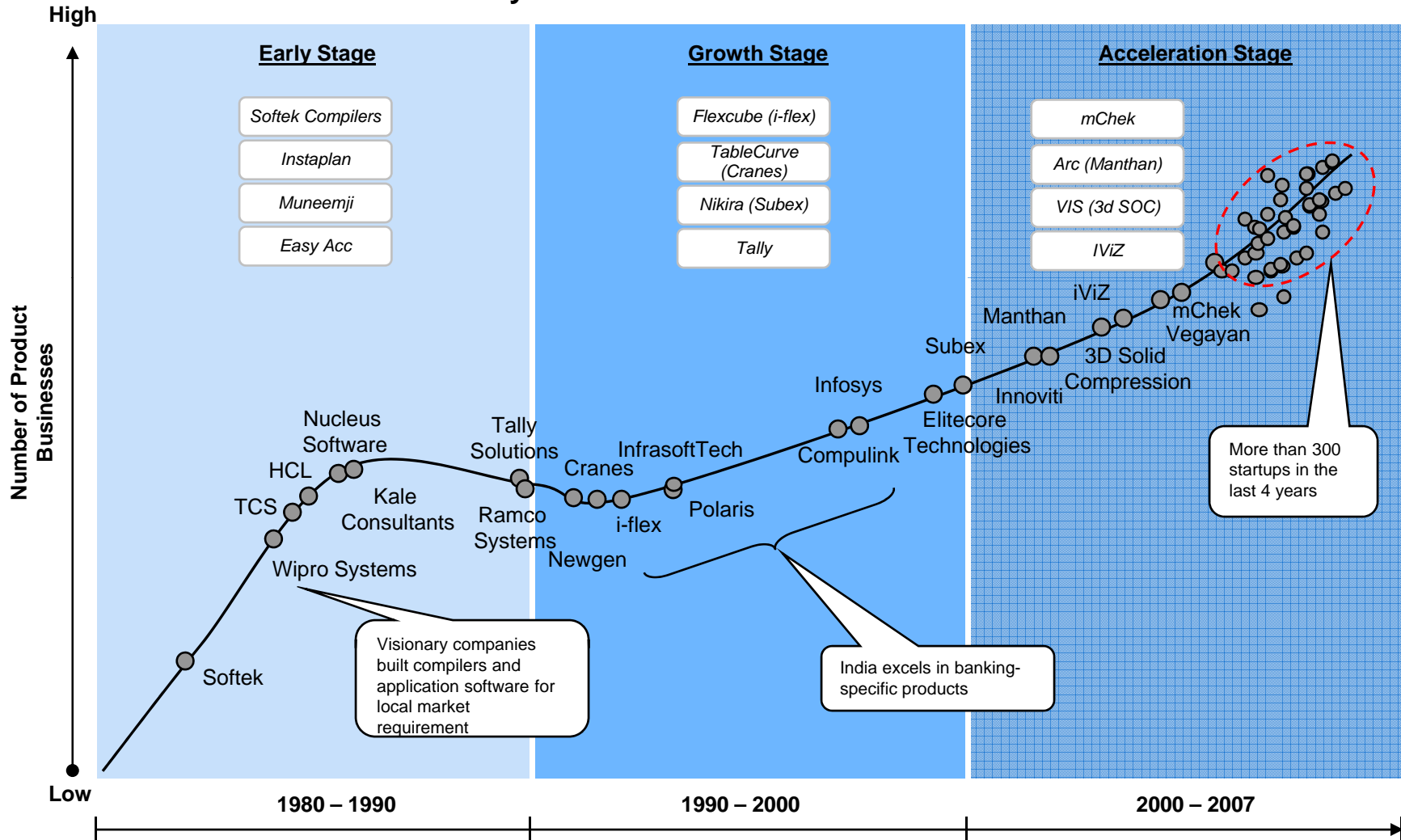


Note: ¹The number is net of mortality rate; ²Telecom includes mobile application software product companies; ³ includes system, Information & data management, application development tools, SCM, System & Network Management, Retail, Gaming, Storage, Advertising, e-Governance, Healthcare, Media and Entertainment, Application Deployment, and Quality Life Cycle tools etc.

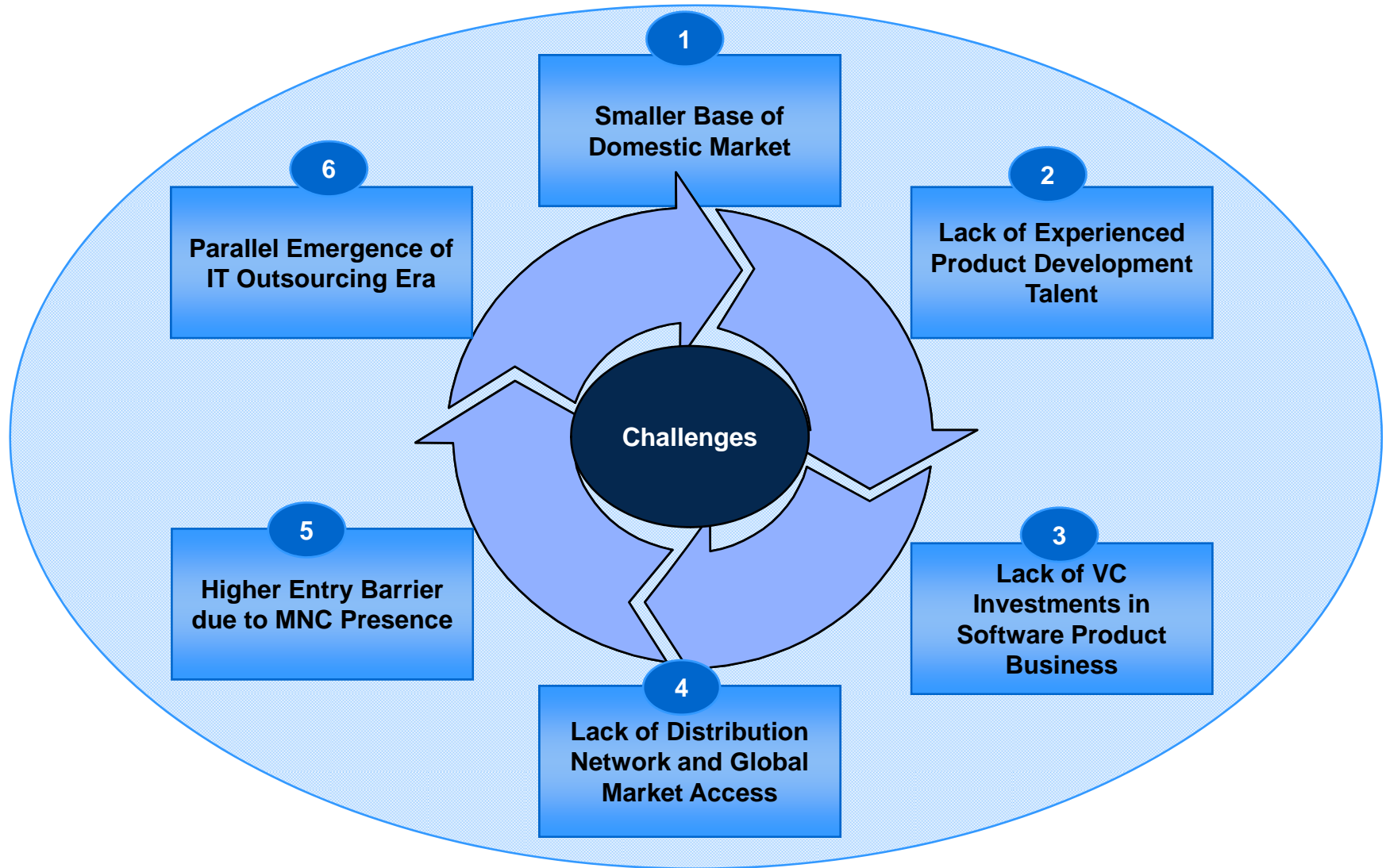
Source: Zinnov Analysis

Increased activity in the Indian software product industry is being witnessed only after three decades of its evolution

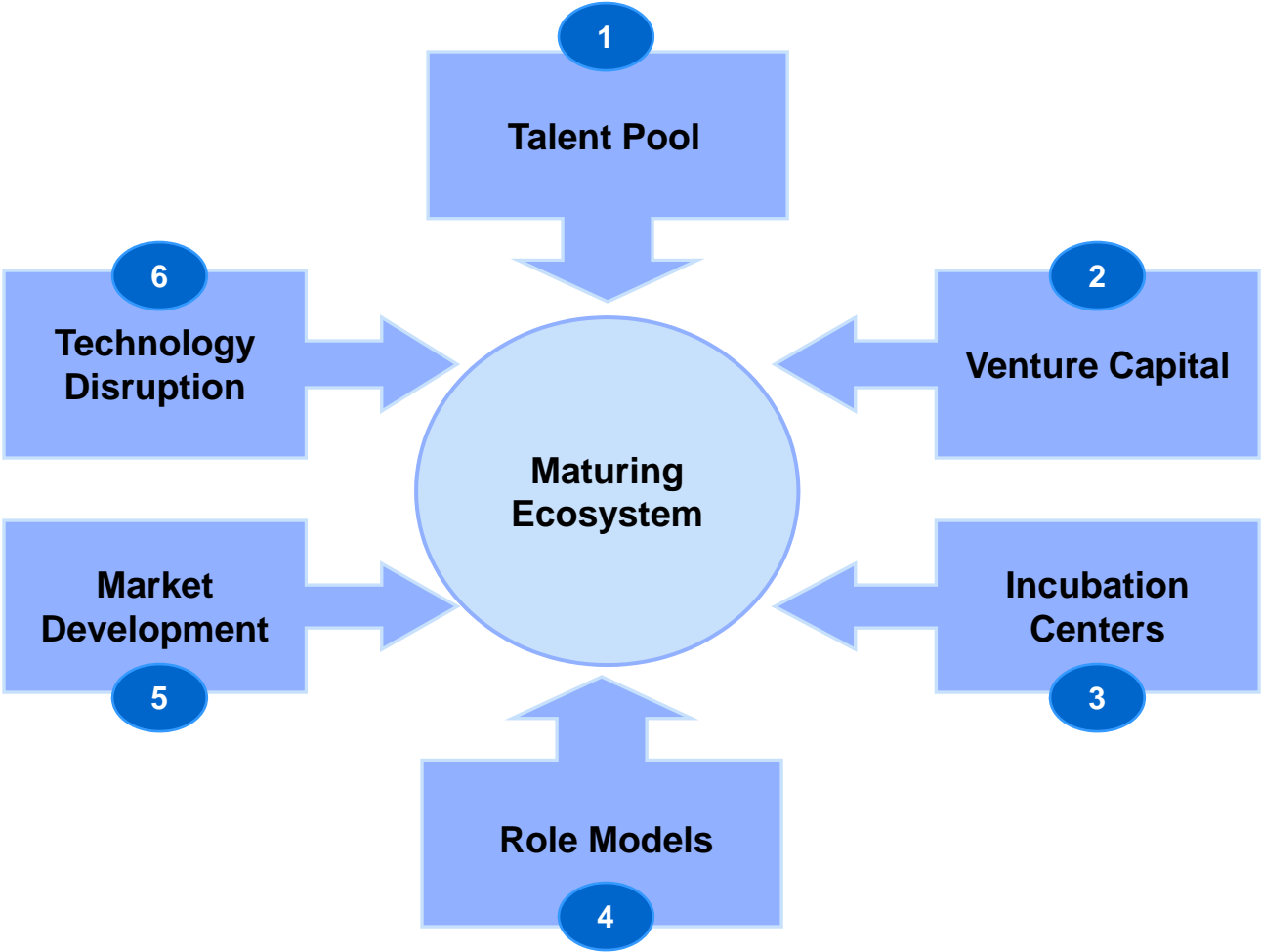
History of Indian Software Product Business



While India's role in global technology IP creation has grown steadily, several challenges have constrained the growth of home-grown software product business



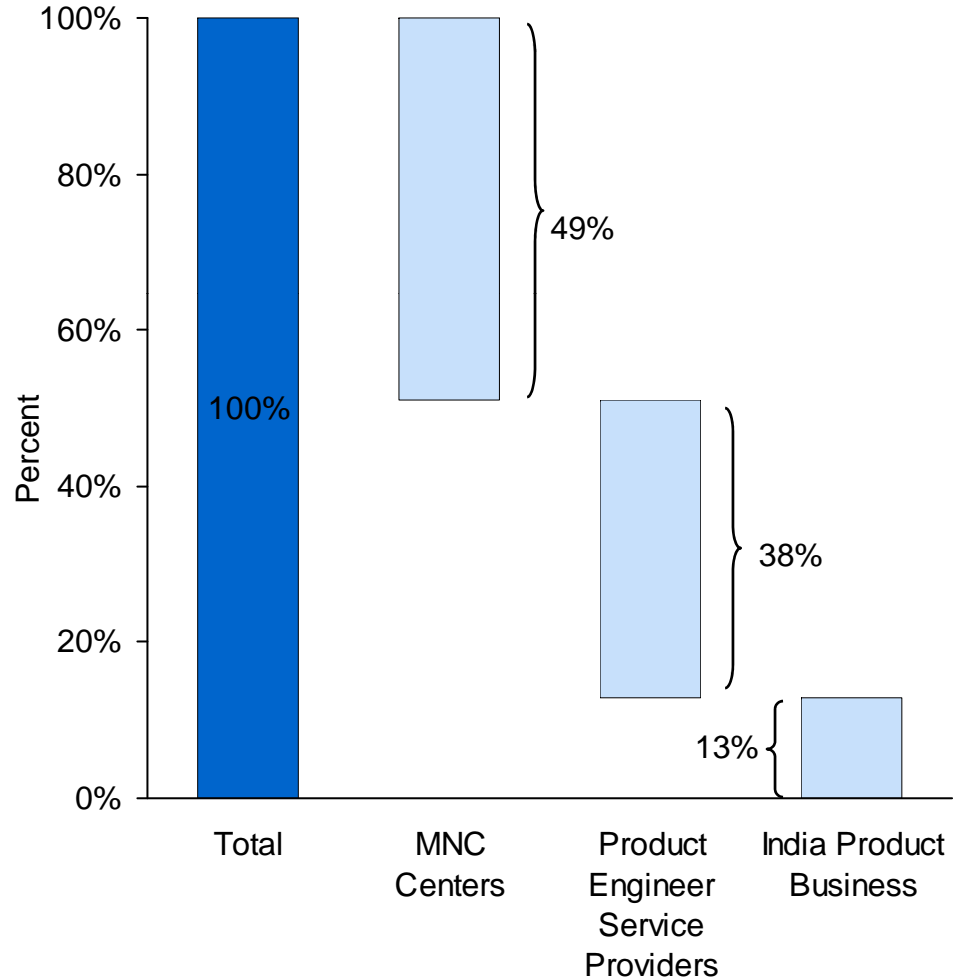
However, a maturing ecosystem has helped accelerate the growth of home-grown software product businesses over the past few years



Source: Zinnov Analysis

Product development professionals in India are spread across MNC subsidiaries as also service providers and Indian software product businesses

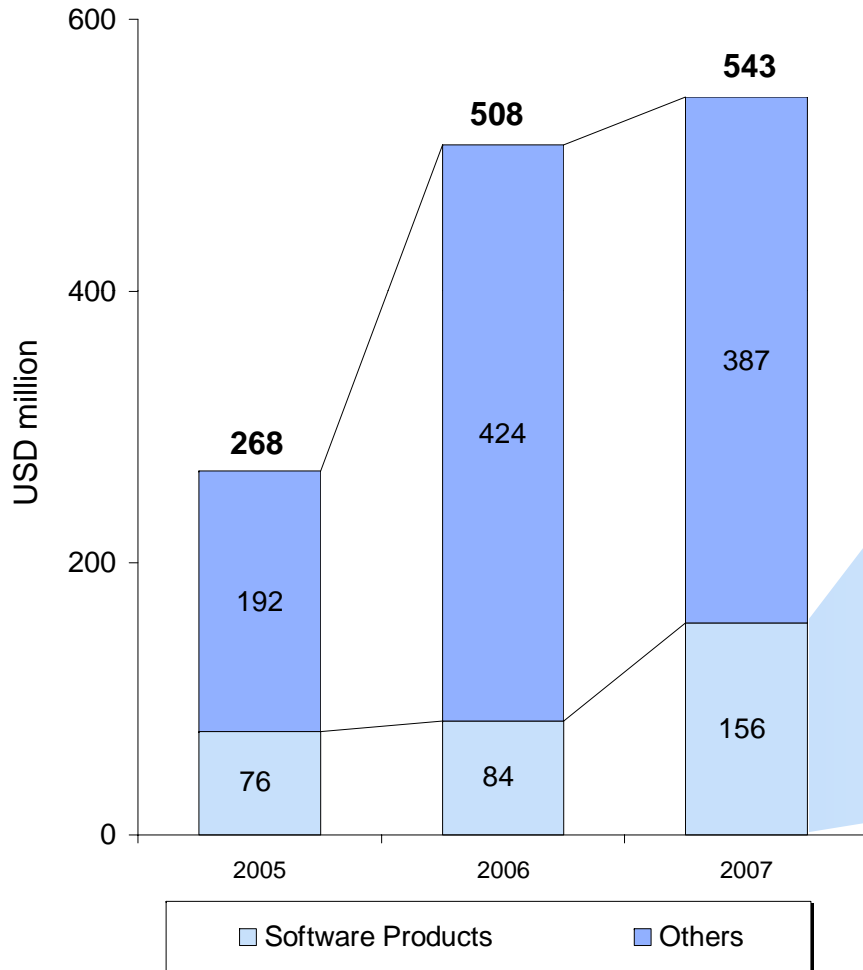
Distribution of Software Product Development Talent, 2007



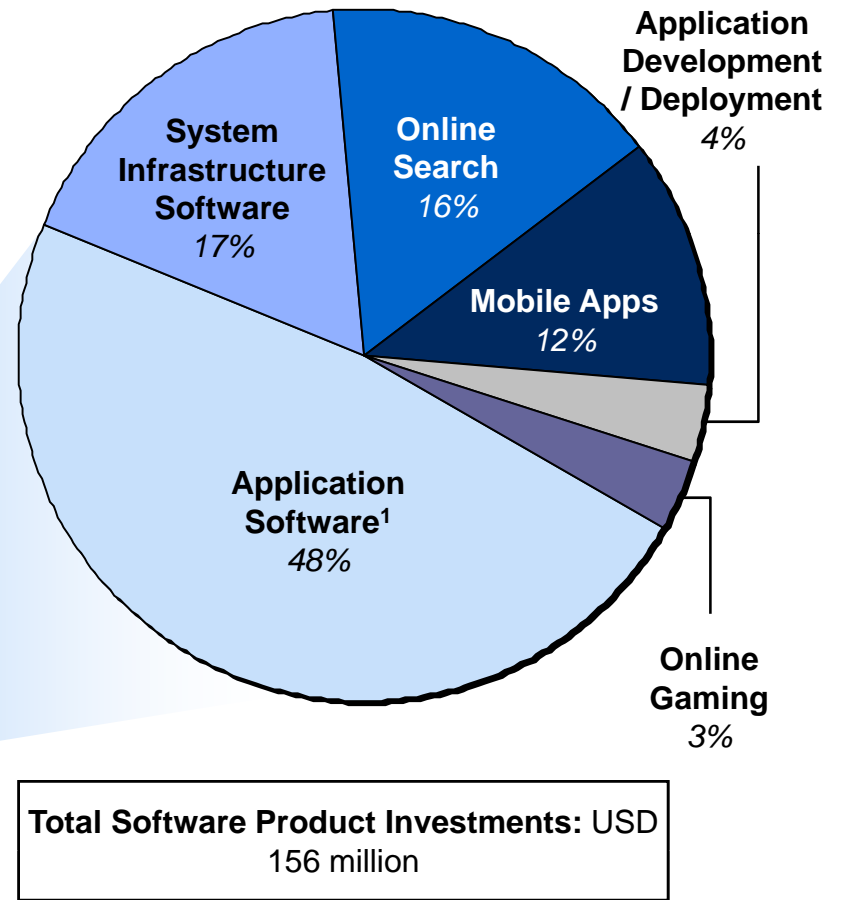
Total Installed Talent Pool = 140,000

Venture capital funds investing in India are actively focusing on software product business funding

VC Investments in India, 2005 – 2007



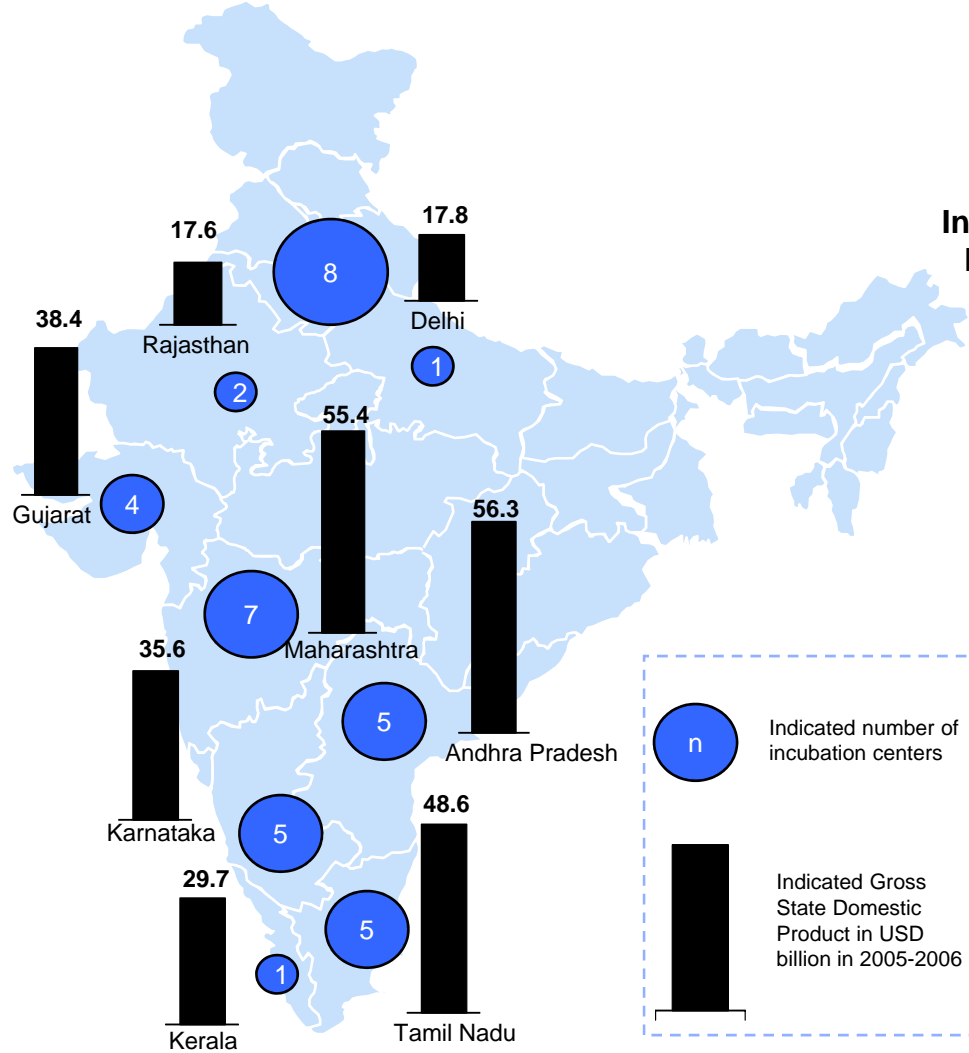
VC Investments by Software Product Categories, 2007



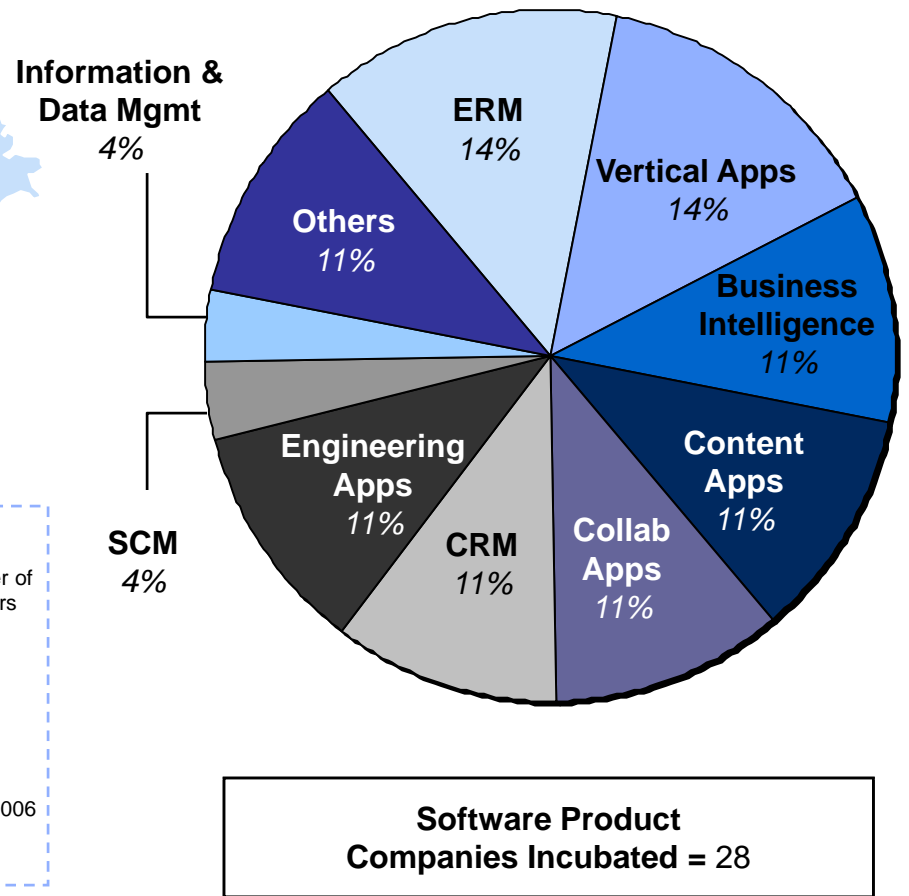
Source: Venture Intelligence; Zinnov Analysis

A number of incubation centers have been established across India, that are helping technology startups with funds and mentorship

Geographical Distribution of Incubation Centers



Number of Companies Registered with Incubation Centers Across Product Categories, 2007



Over the years India based software product businesses have built renowned products which can act as role models for startup companies

Companies

Description



- In 1992, Citibank spun off the FLEXCUBE product division into a separate company called Citicorp Information Technology Industries (CITIL). In the year 2000, CITIL changed its name to i-flex solutions.
- FLEXCUBE was consistently ranked as the number one banking solution in the world by IBS UK, for five consecutive years.
- As on 2007, Oracle Global holds 80.58 per cent of the total paid up capital of i-flex



- Mr. Subash Menon founded Subex with a startup capital of INR 20,000 in 1992
- Subex Systems, incorporated in 1995 was listed on the BSE in 1999
- Subex boasts of a client list that includes 32 of the world's 50 largest telecommunications service providers
- Subex has grown both organically and inorganically over the years; Syndesis and Azure are few of its recent acquisitions
- In 2007, Subex won the Verizon Supplier Excellence Award



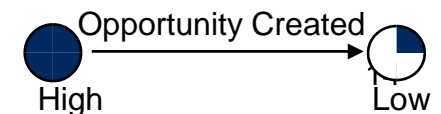
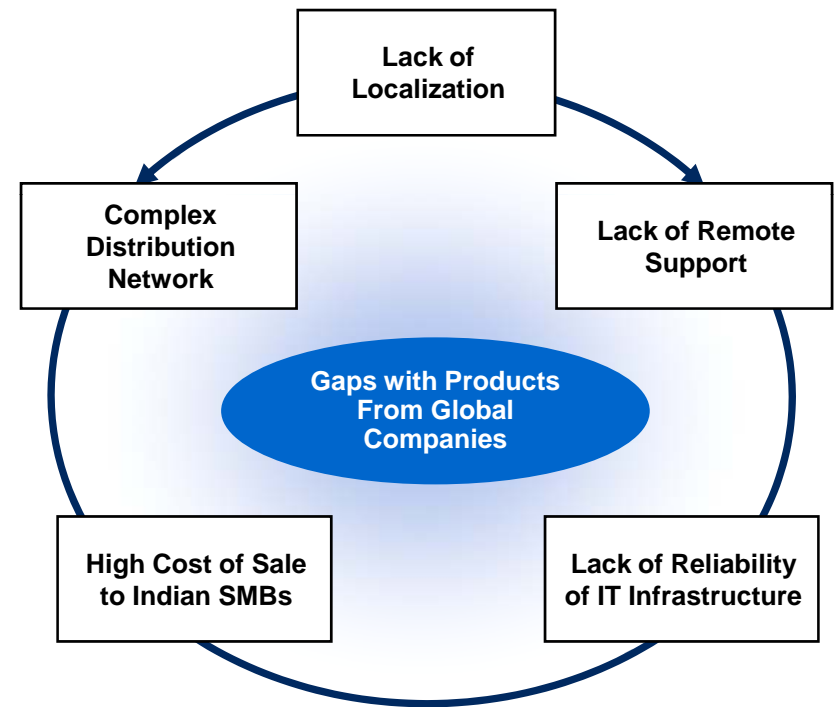
- Mr. S. S. Goenka, set up Peutronics Pvt. Ltd in 1986, which later metamorphosed into Tally Solutions
- Tally has released multiple versions of their accounting product; In the year 2005 launched Tally 7.2, which created an accounting revolution in India
- Tally has a robust sales and distribution channel. Tally's strategy for the future is to become a company with the world's largest channel partner network with 15,000 partners

Domestic market in India is unique in multiple ways—this is fueling opportunities for India-based software product businesses

Drivers to Tap Domestic Software Market

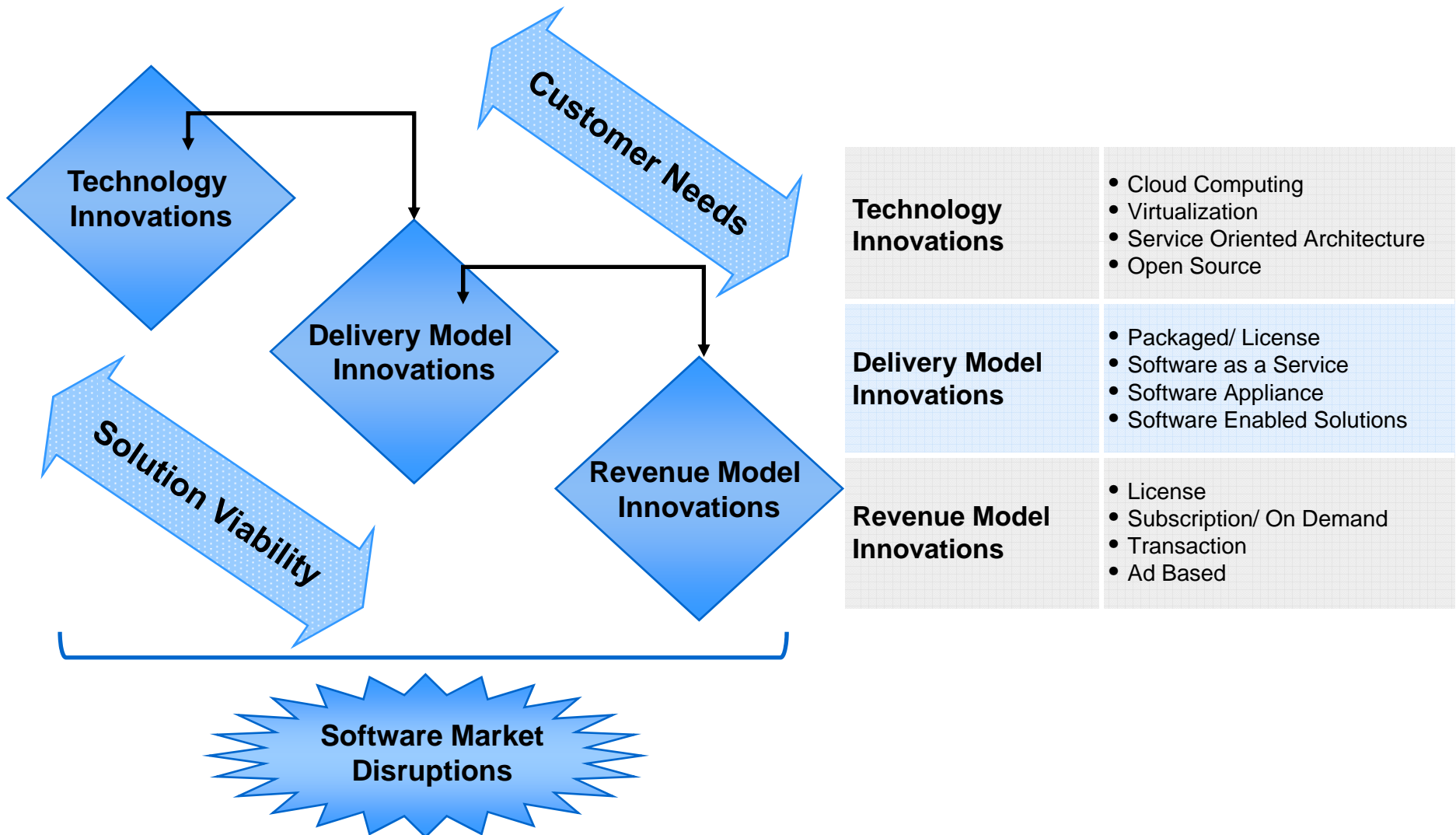
Drivers	Description	Opportunity
Market Growth	The software product market in India is growing 2.8 times as fast as global market	
SMB Potential	SMB market in India is huge and the current IT and software penetration is very low	
Need for Localization	Increased requirement of localized products to best suit the needs of consumers	
Evolving IT Infrastructure	Internet, PC and mobile penetration is faster as compared to other emerging nation	

Challenges for MNCs in Domestic Market



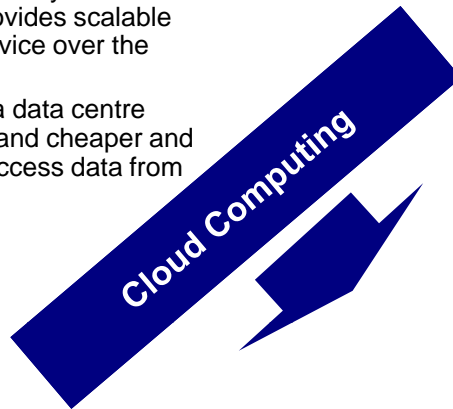
Additionally, disruptive innovations in technology, revenue and delivery models are helping unlock significant potential for Indian software product businesses

Innovation Levers in the Software Product Market

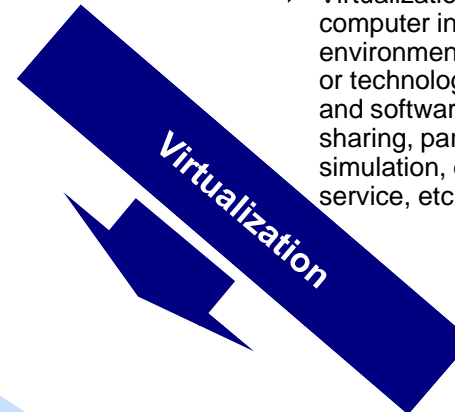


Disruptive technology innovations are opening up newer opportunities for software product companies globally

- ▶ Cloud computing is a way of computing which provides scalable IT solutions as a service over the internet
- ▶ Benefits: Benefit of a data centre without owning one and cheaper and simpler devices to access data from anywhere

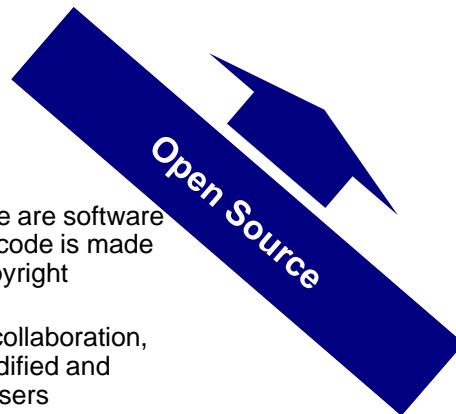


- ▶ Virtualization technologies divide a computer into several execution environments by applying concepts or technologies such as hardware and software partitioning, time-sharing, partial or complete machine simulation, emulation, quality of service, etc.

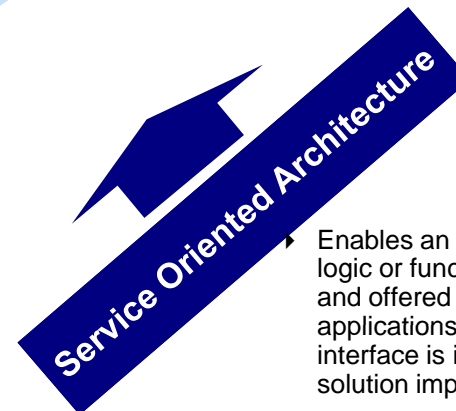


Technology Innovations

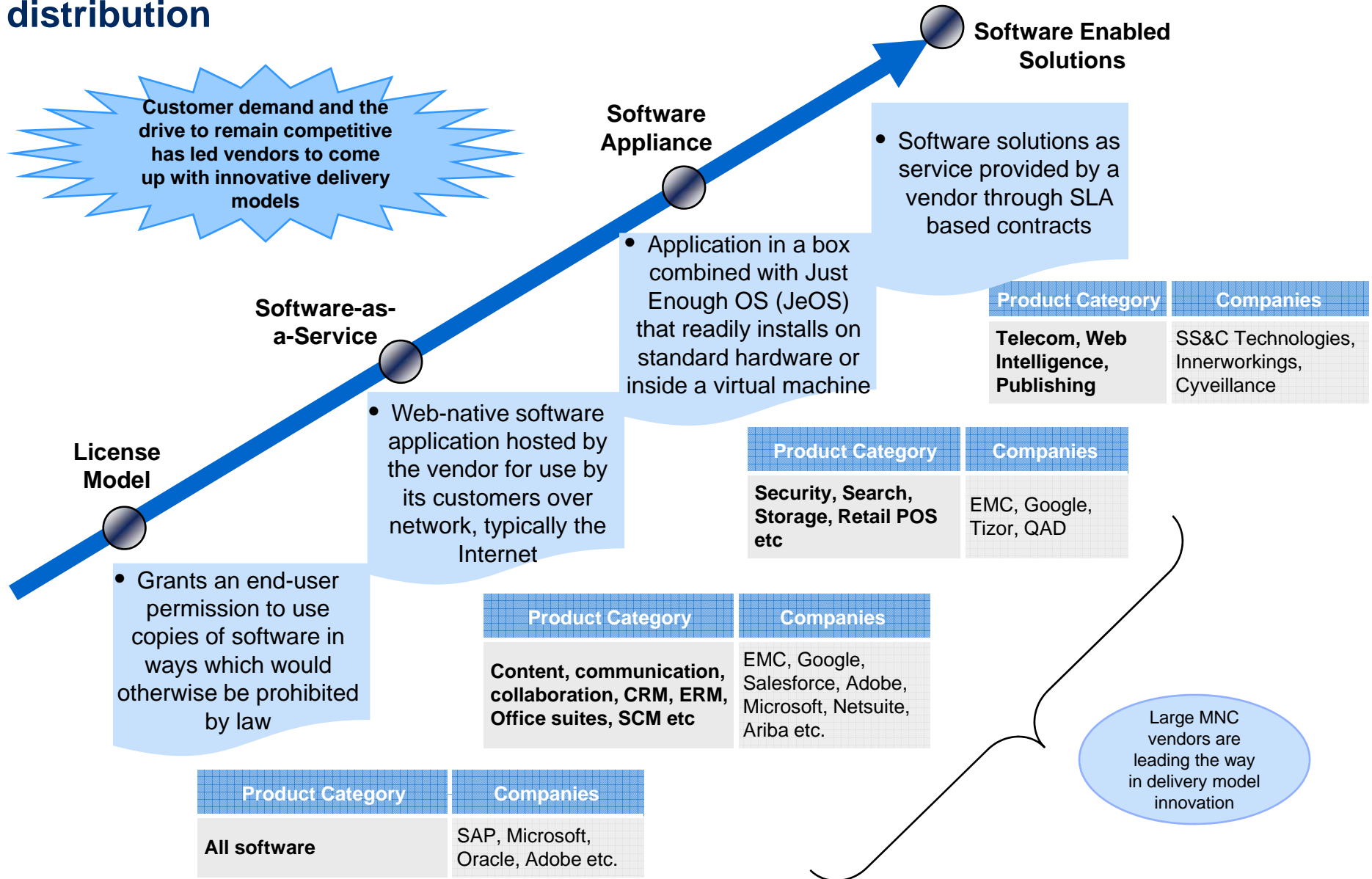
- ▶ Open source software are software for which the source code is made available under a copyright agreement
- ▶ Developed in public collaboration, this can be used, modified and redistributed by the users



- ▶ Enables an applications business logic or function to be modularized and offered as service for consumer applications where the service interface is independent of the solution implementation



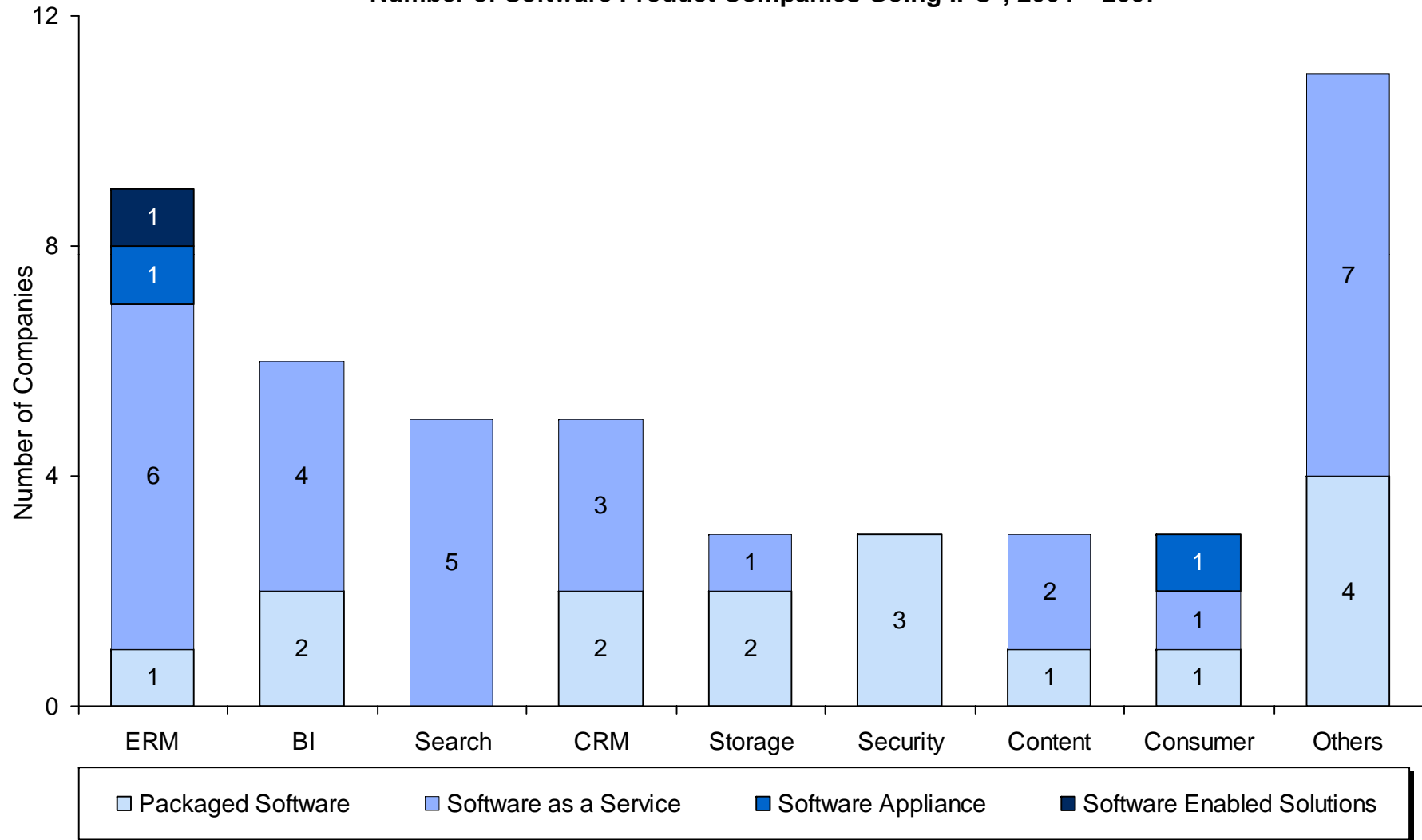
Innovation in delivery models has led to a radical shift in global software distribution



Companies with SaaS as a delivery model in high growth areas such as ERM and BI have gone IPO over the last three years

Illustrative

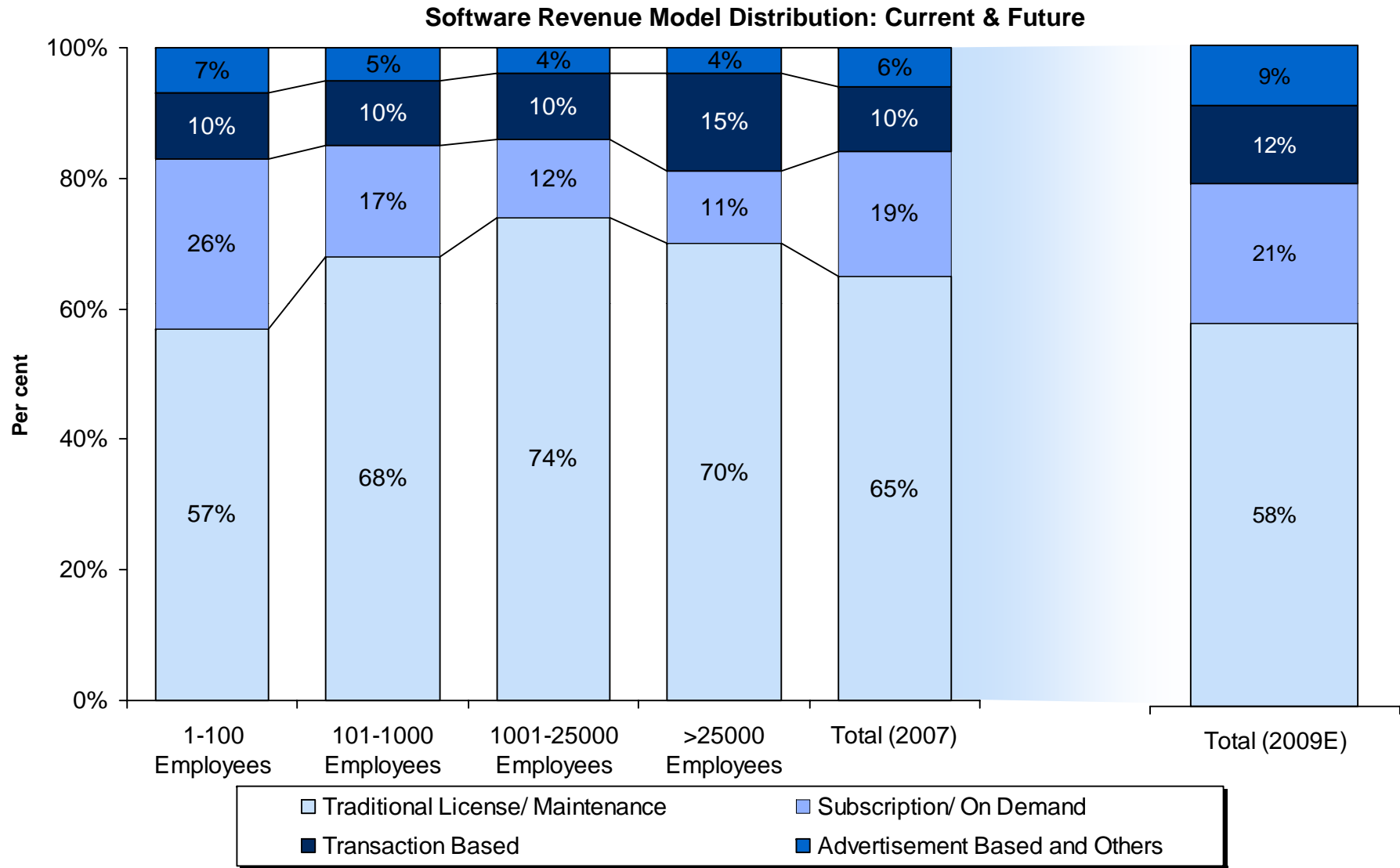
Number of Software Product Companies Going IPO¹, 2004 – 2007



Note: ¹Initial Public Offering; Data based on a sample of 48 companies going IPO between 2005 and 2007

Source: Zinnov Analysis

Traditional license-based revenue models are giving way to other innovative business models in the global software product market

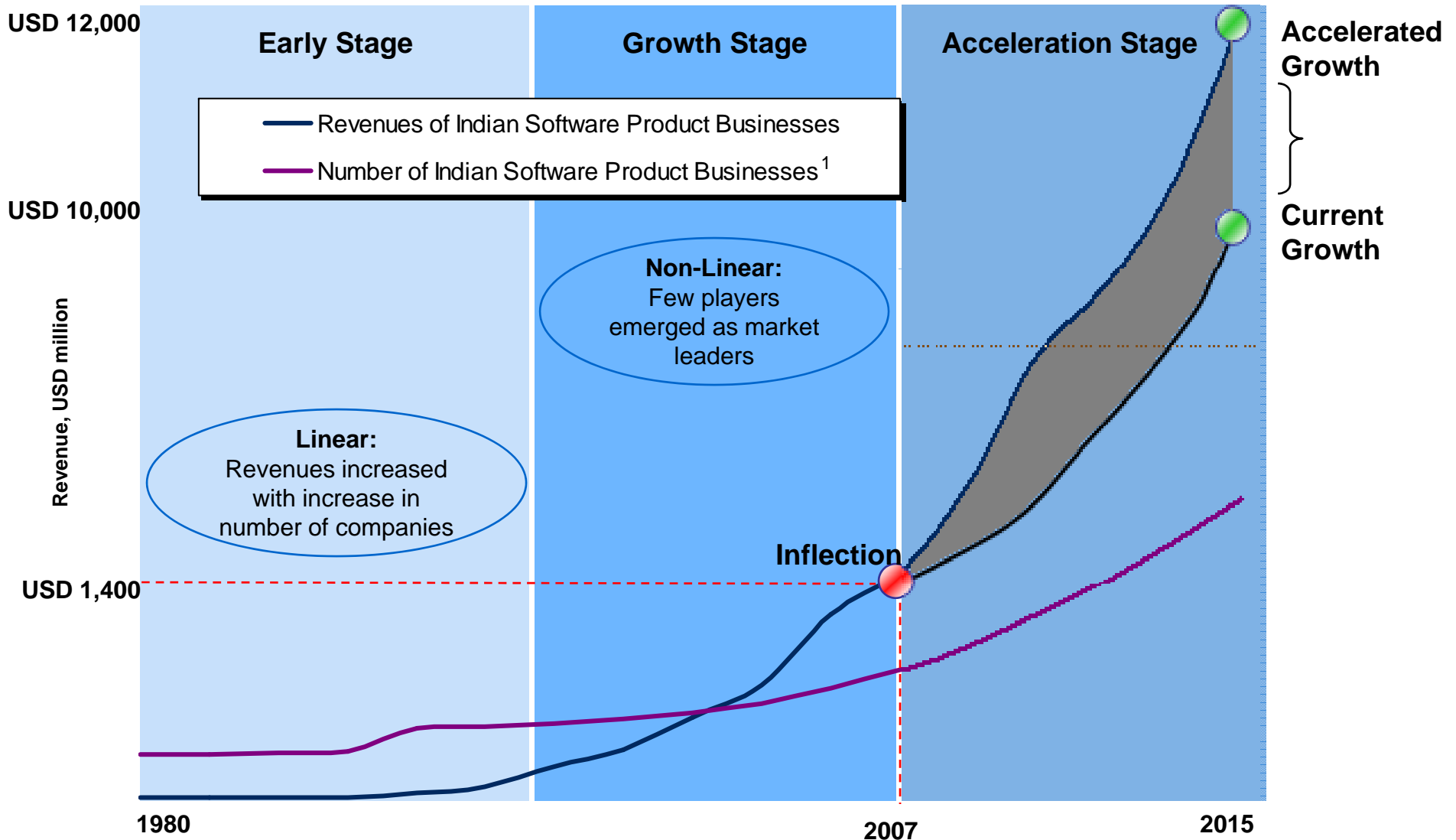


Note: E = Estimated; Based on the survey conducted among 857 enterprise software customers

Source: McKinsey & SandHill Enterprise Software Customer Survey, 2008

All these market indicators are leading Indian software product industry towards an inflection point in its evolution curve

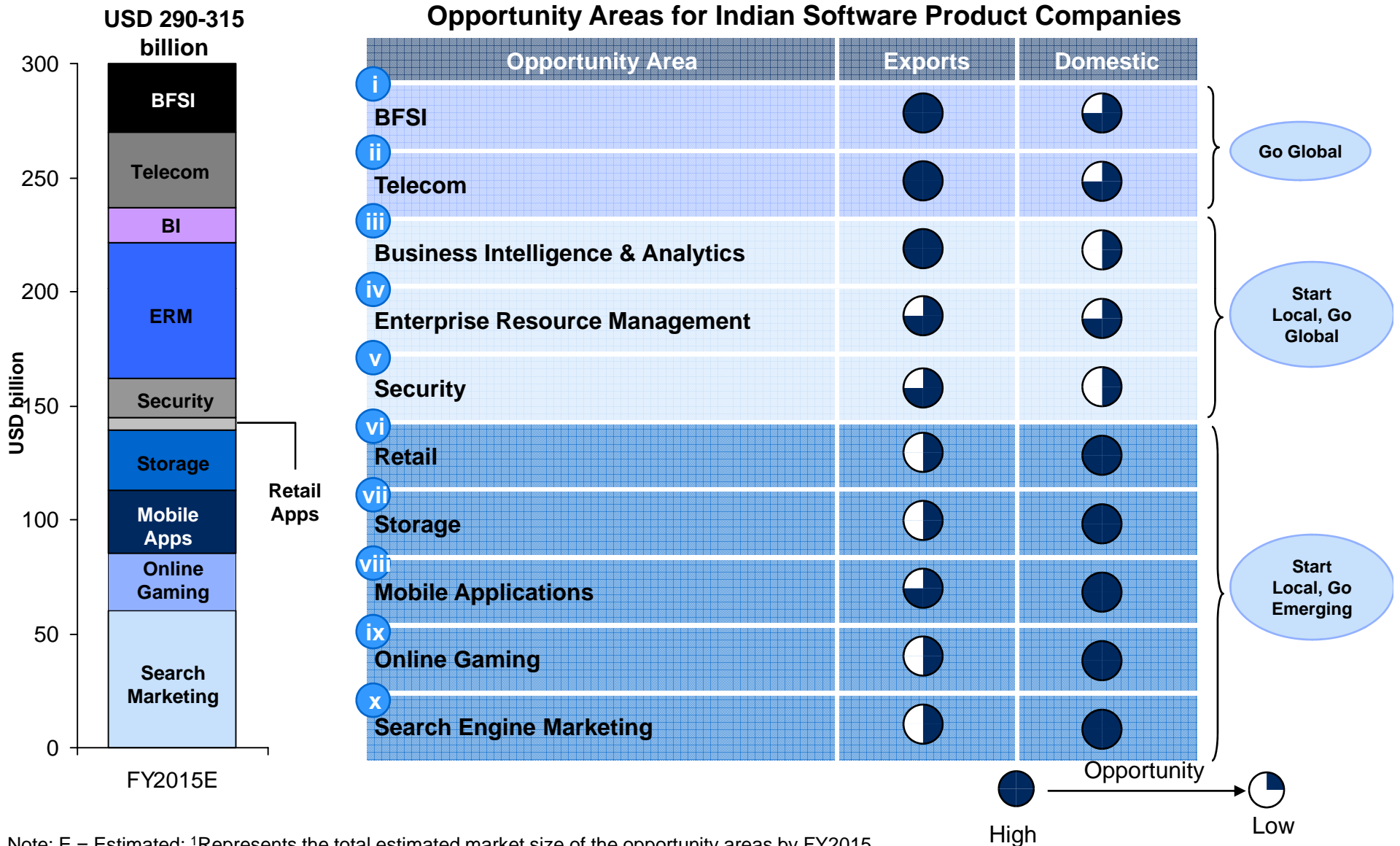
Indian Software Product Business Evolution Curve



Note: ¹The number is net of mortality rate and companies that got acquired during the period

Source: Zinnov Analysis

Over the next seven years, Indian software product businesses have an addressable¹ market opportunity of USD 290 to 315 billion

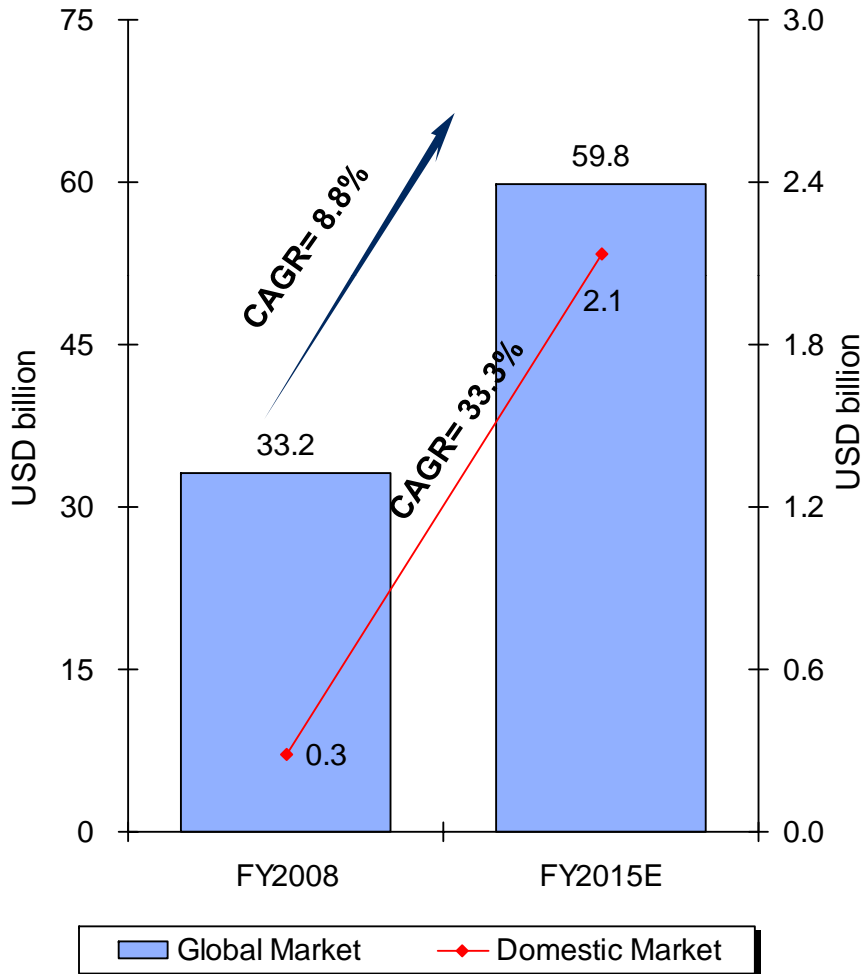


Note: E = Estimated; ¹Represents the total estimated market size of the opportunity areas by FY2015

Source: Zinnov Analysis

The opportunity for Indian ERM product businesses is huge, and India has already started seeing some early signs of success in this category

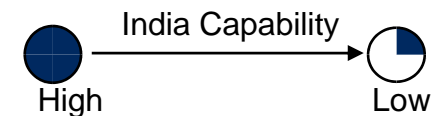
ERM Software Market Size, FY2008¹ – 15E



India's Capability for ERM Software

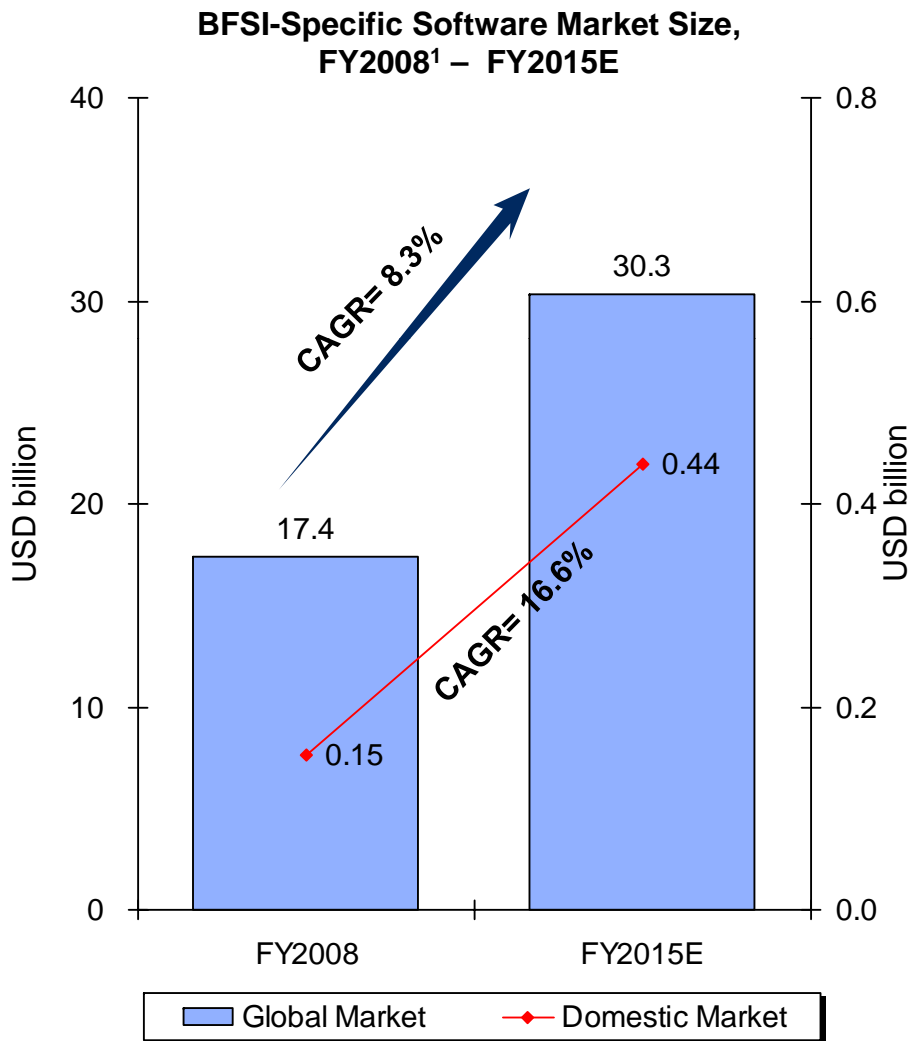
Role Models		<ul style="list-style-type: none"> India now has some respectable names in the ERM space such as Tally, Ramco, Adrenalin, Intelliob, Kom7 Tech. etc. Most of these role model companies have gained expertise in fulfilling SMB-specific demands for ERM software
Talent/ Domain Expertise		<ul style="list-style-type: none"> India has gained a significant domain knowledge and talent expertise with all the leading global ERM software vendors such as SAP, Oracle, Microsoft having their large development centers based out of India
Incubation Centers		<ul style="list-style-type: none"> ERM-related software product startups are increasingly being incubated in India with 14 per cent of the total incubated companies (28) operating into ERM space Examples include Global Tech (CIIE, Ahmedabad), CEON (CIIE, Ahmedabad), Bridle IT (TBI, Pilani)
Acquisitions		<ul style="list-style-type: none"> Acquisition trends are increasing in the ERM space with companies like SAP and TVS showing interest in Indian ERM companies Examples: SAP acquired Yasu

Note: E = Estimated; ¹Estimated based on the market size data for CY2007
 The list of companies mentioned in the table is illustrative and may not be exhaustive
 Source: IDC; Zinnov Analysis



The opportunity in the BFSI market is huge and is driven by increased demand in the domestic and global market

India's Capability for BFSI-Specific Software

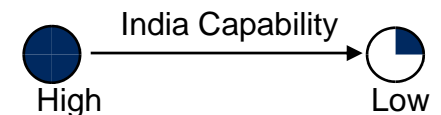


Role Models	●	<ul style="list-style-type: none"> BFSI sector specific software products from Indian companies such as TCS, Infosys, i-flex, 3i-Infotech, Polaris, Nucleus Software, Omnesys, Lasersoft, Mindmill are preferred by customers globally
Talent/ Domain Expertise	●	<ul style="list-style-type: none"> Some of the global leading BFSI software providers such as Fidelity, Misys, SAP, Sunguard, CSC have set up their subsidiaries for development activity This along with IT outsourcing has helped increase domain expertise and talent capabilities in the BFSI sector
VC Investments	●	<ul style="list-style-type: none"> Indian companies in the BFSI software product segment have been able to attract high VC investments Funding Range: USD 7 -24 million Total Funding (Since 2004): USD 71 million Examples: Financial Software & Systems, Infracsoft etc.
Acquisitions	◐	<ul style="list-style-type: none"> Indian BFSI companies have been successful in gaining increased interest from global software giants Oracle's acquisition of i-flex is one of the key examples to highlight the rising BFSI expertise from India

Note: E = Estimated; ¹Estimated based on the market size data for CY2007

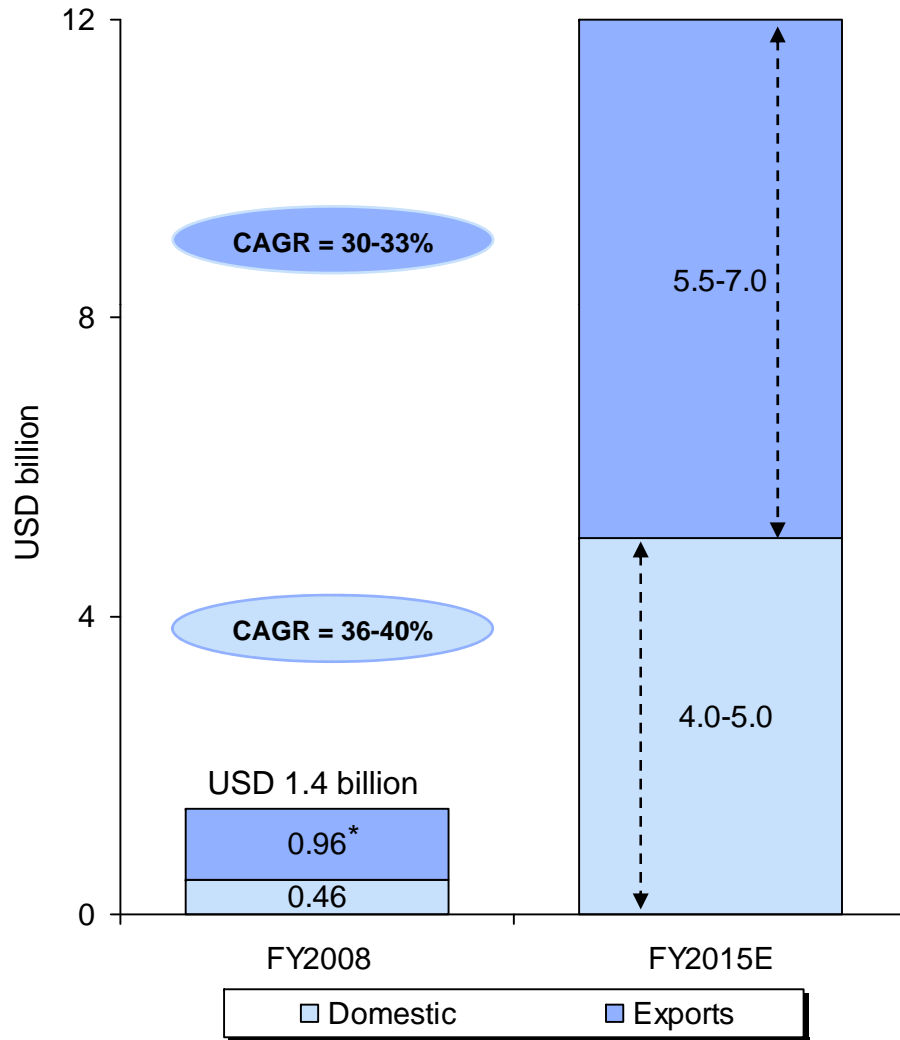
The list of companies mentioned in the table is illustrative and may not be exhaustive

Source: Zinnov Analysis

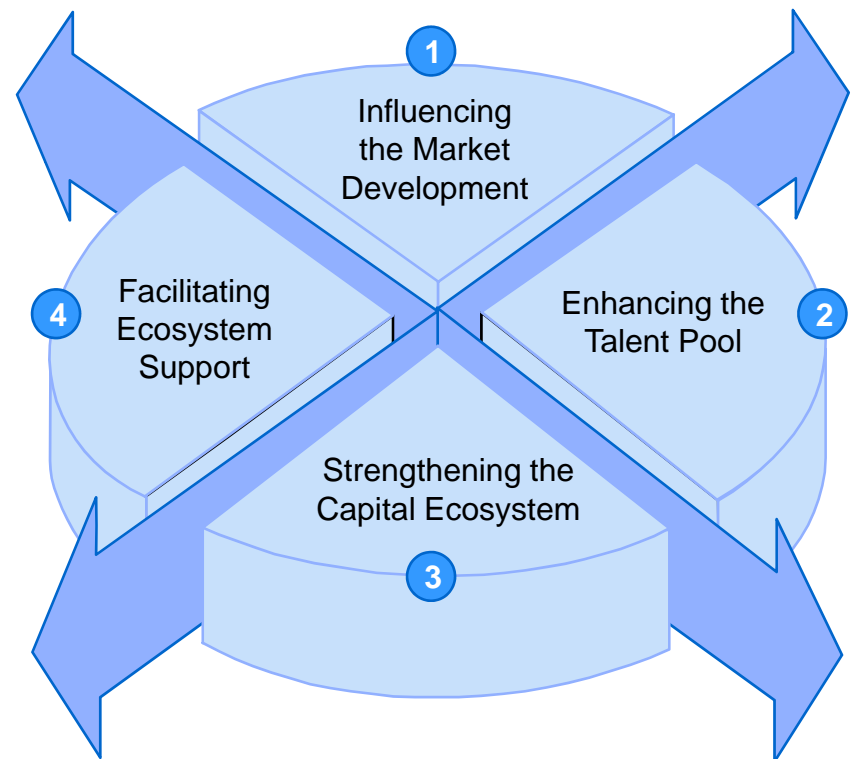


Actions across four key themes will help India based software product businesses to achieve accelerated growth and reach the target

Indian Software Product Business
Revenues, FY2008 to FY2015E

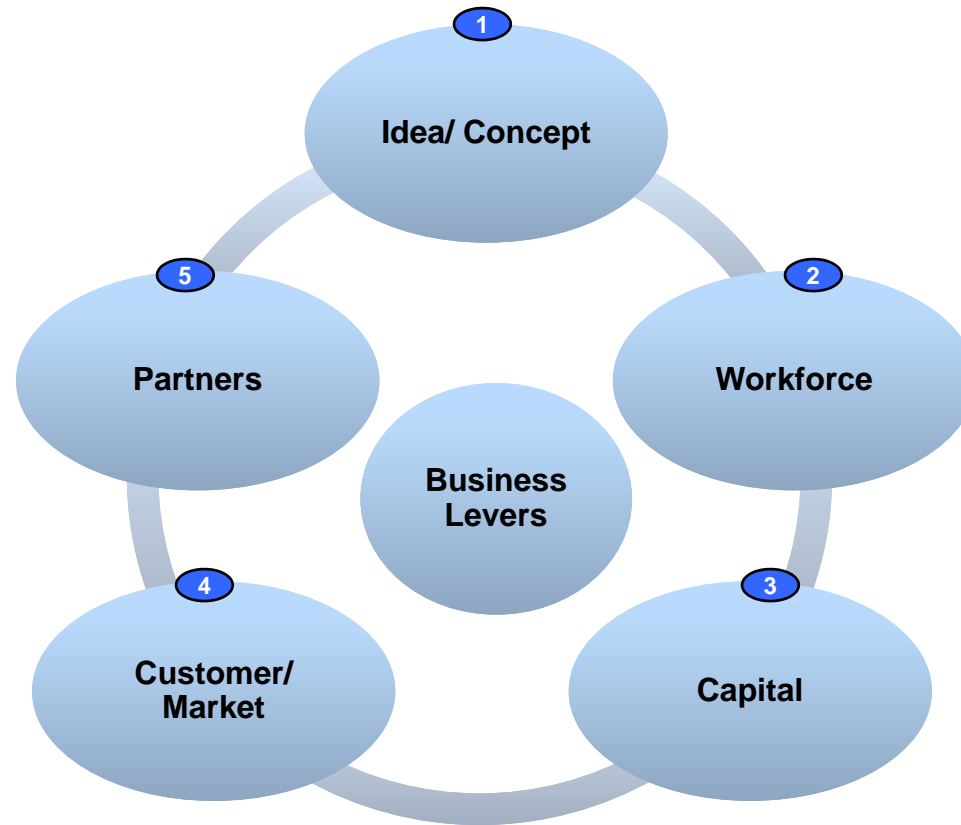


Enablers of Accelerated Growth

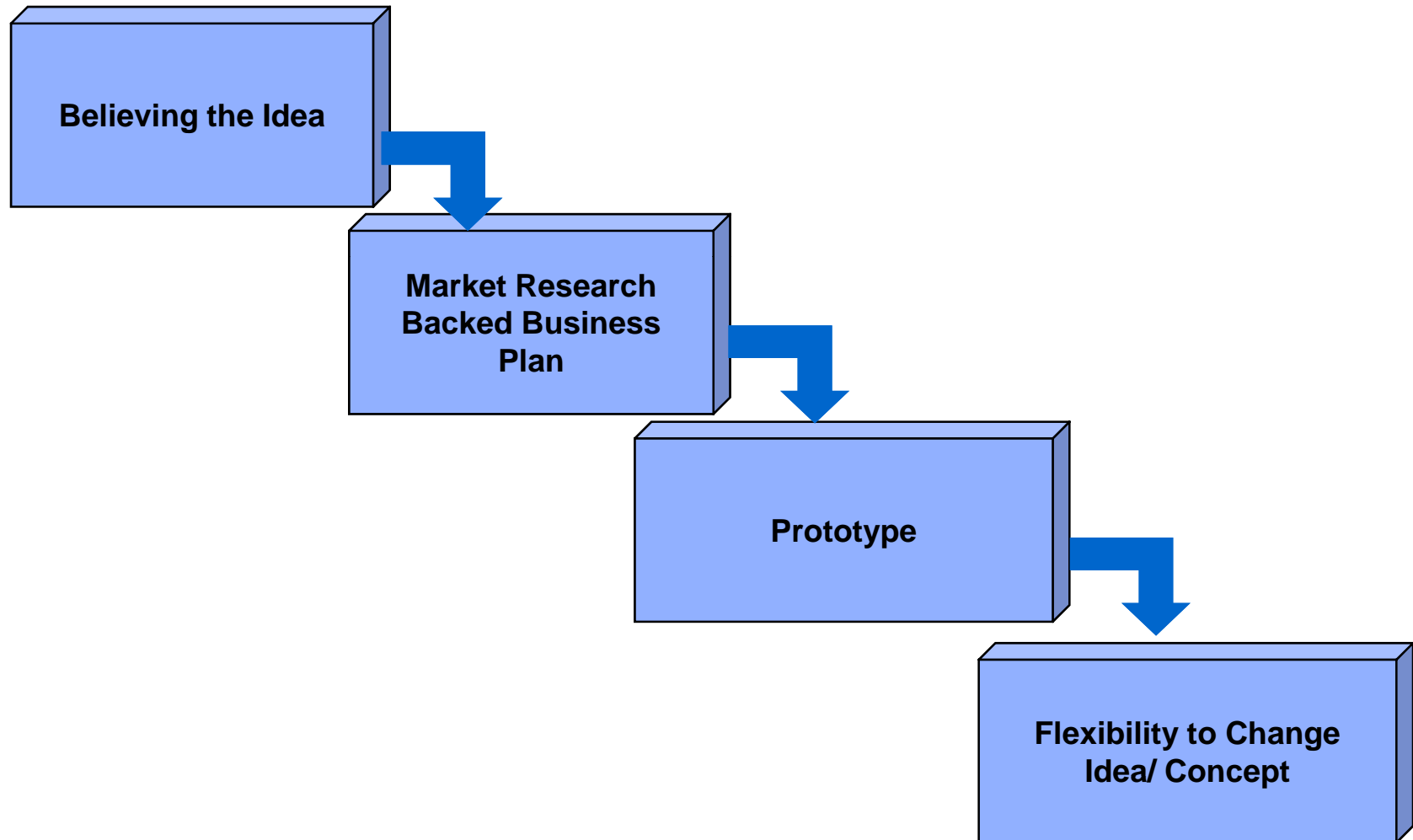


There are five business levers that entrepreneurs need to take stock of to build a scalable software product business

Business Levers for Entrepreneurs



Validating the feasibility of an idea and backing it up with research-based facts is very critical for entrepreneurs to move ahead in the initial phase



Hiring right mix of talent and effectively leveraging their skills to wear multiple hats is the key to a build a thriving organization

Workforce

Core Team/ Founders

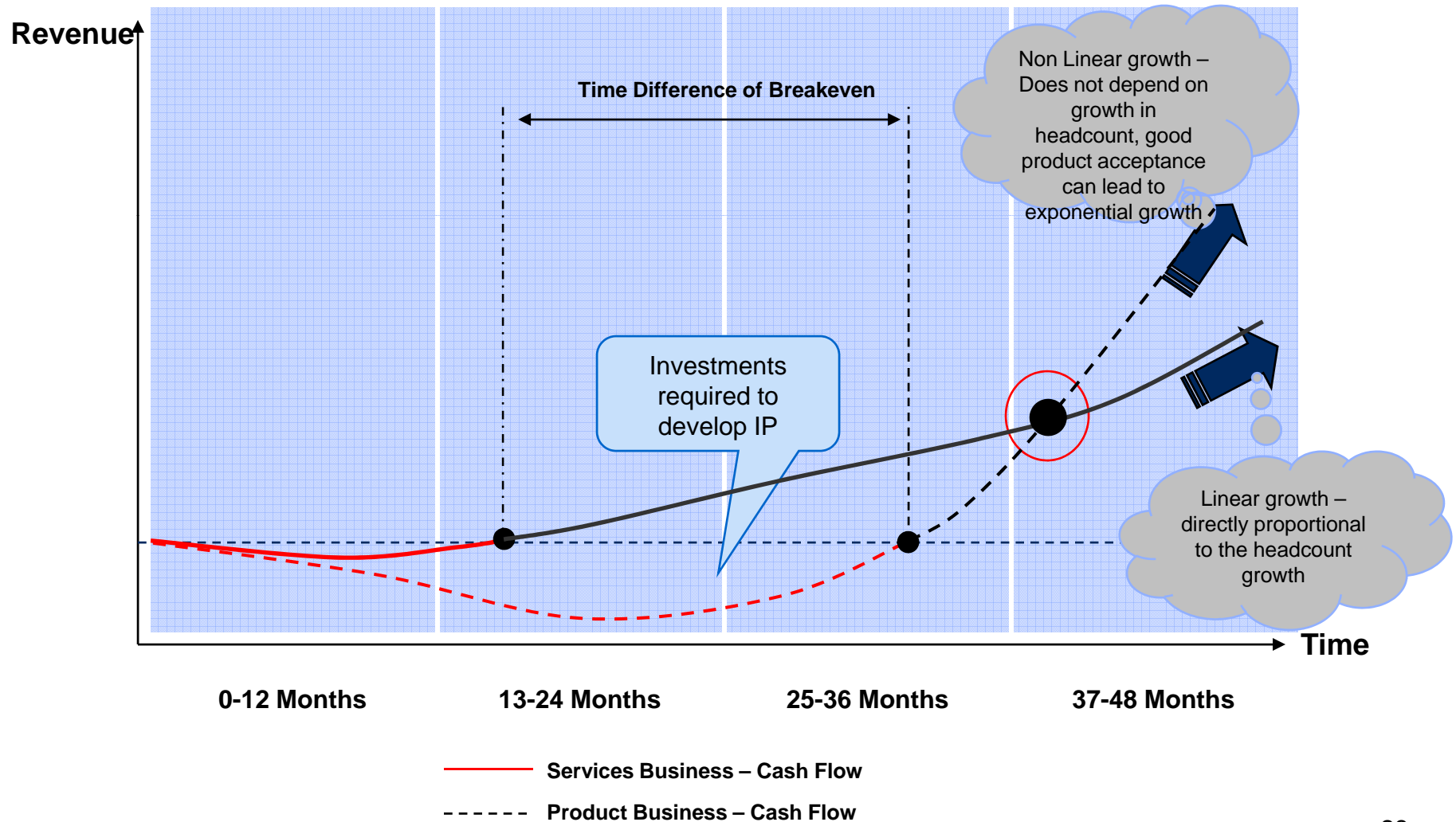
Mentors/Role Models

Development Team

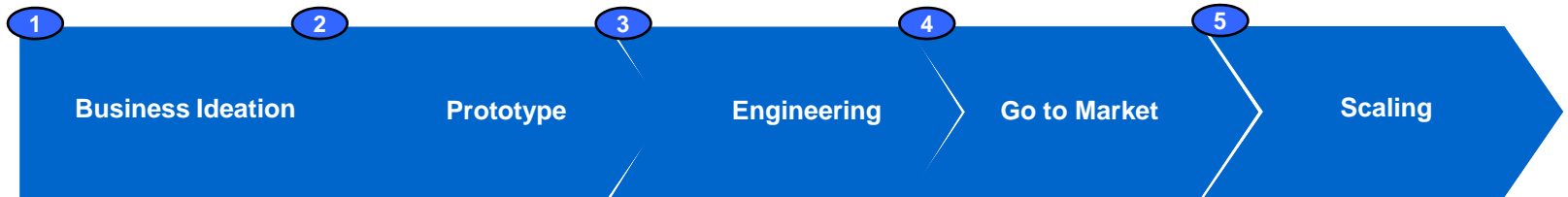
Sales & Marketing Team

Software product business requires significant investments and it takes about 36 to 48 months to breakeven

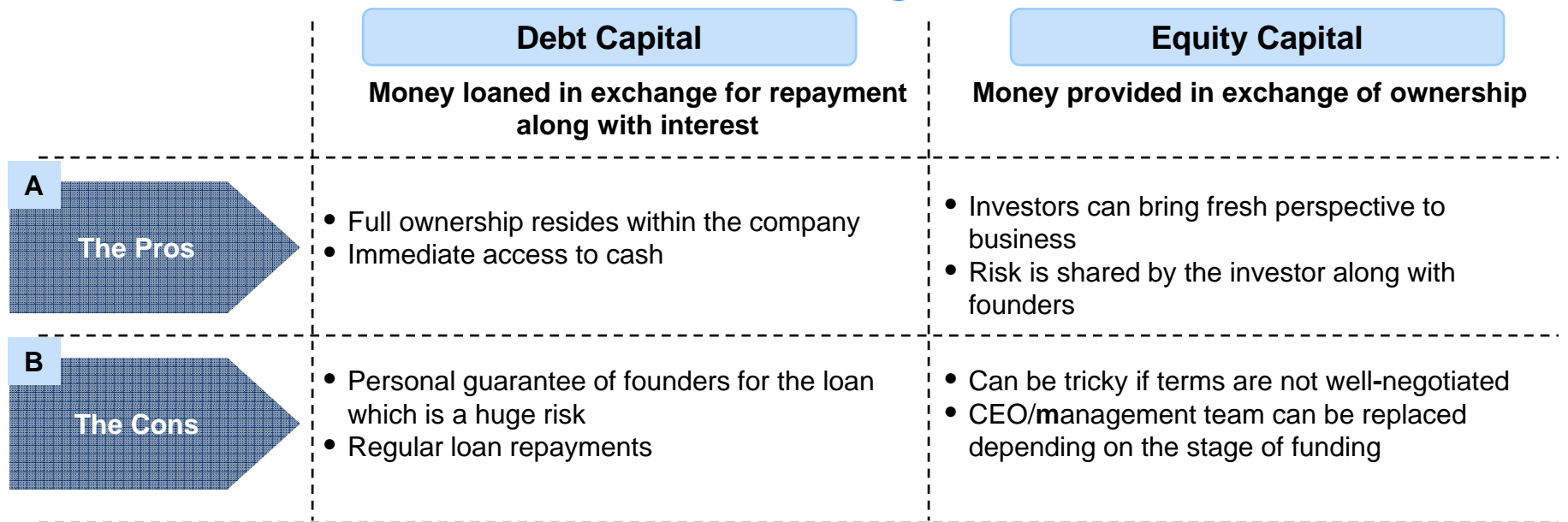
Cash flow Comparison for Software Products and IT services



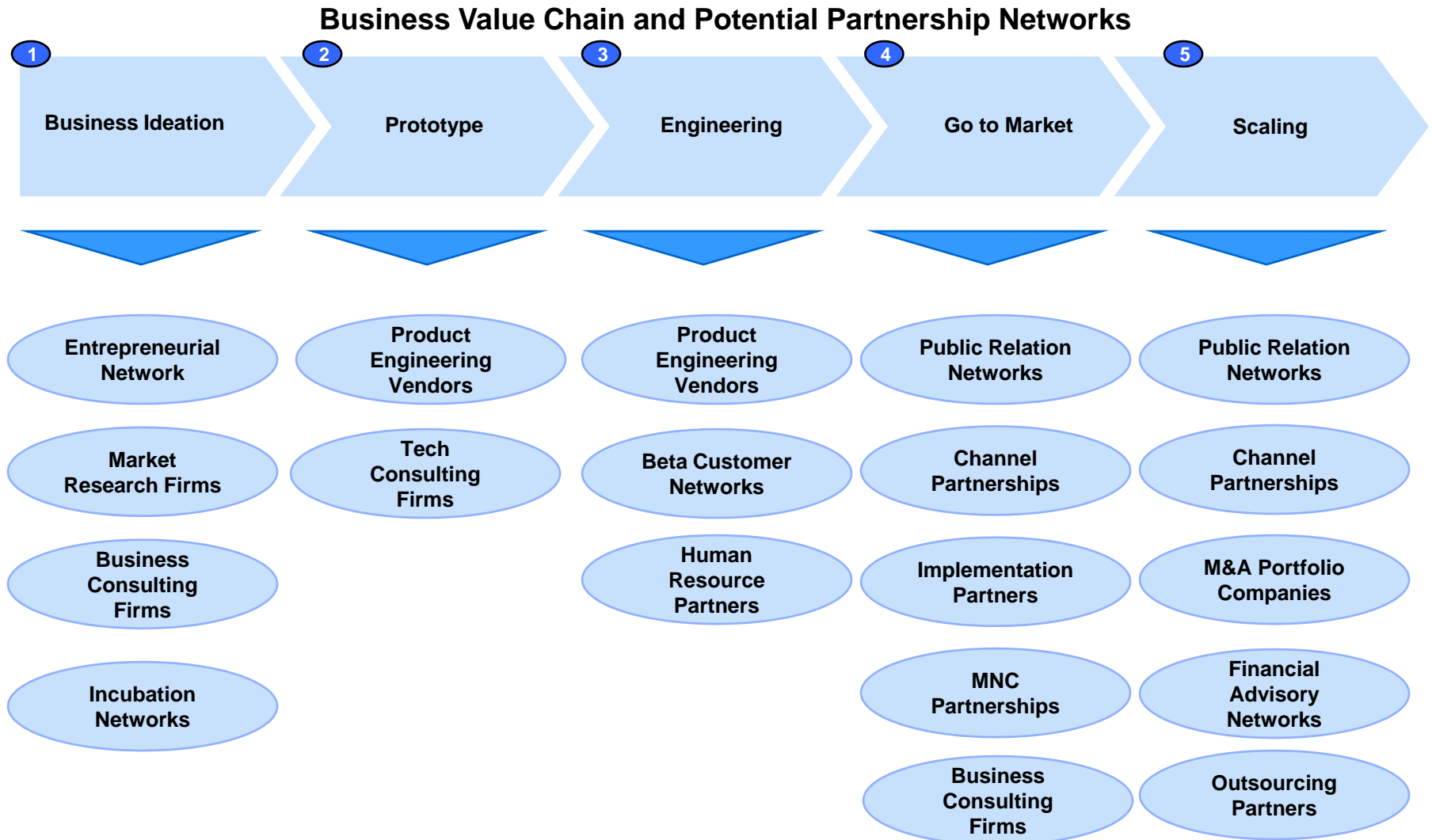
Thorough understanding of the funding mechanism at every phase will help in negotiating a good deal with investors



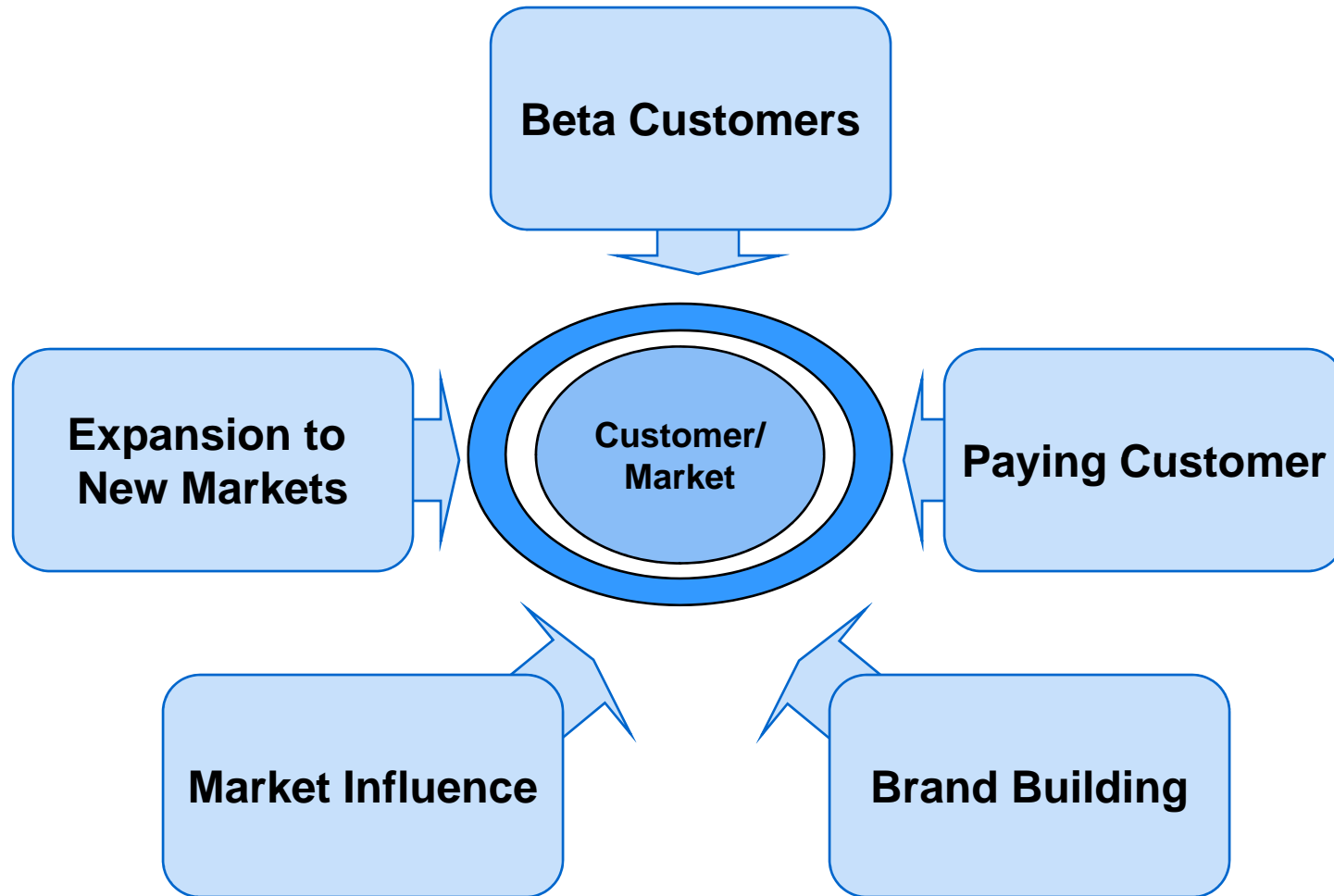
Stage	Pre Seed	Seed	Early Stage	Late Stage	Established
Source	Founders/ Core Team	Friends/ Family/ Angels	Angels/ Early Stage VCs	Venture Capital	IPO/ Private Equity



Leveraging the partnership ecosystem across the business value chain of software products can help in rapid expansion of the business



Being connected to the customers and consistently incorporating their feedback helps in building a successful software product business



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Zinnov Contact

www.zinnov.com

info@zinnov.com

69 "Prathiba Complex", 4th 'A'
Cross, Koramangala Ind. Layout,
5th Block, Koramangala
Bangalore – 560095

Phone: +91-80-41127925/6

575 N. Pastoria Ave
Suite J
Sunnyvale
CA – 94085

Phone: +1-408-716-8432

21, Waterway Ave,
Suite 300
The Woodlands
TX – 77380

Phone: +1-281-362-2773